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S. Hrg. 103–917

EFFECTS OF THE NORTH AMERICAN FREE TRADE AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MAY 6, 1993

Printed for the use of the Committee on Commerce, Science, and Transportation

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EFFECTS OF THE NORTH AMERICAN FREE TRADE AGREEMENT

THURSDAY, MAY 6, 1993

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m. in room SR–253, Russell Senate Office Building, Hon. Ernest F. Hollings (chairman of the committee) presiding.

Staff members assigned to this hearing: Ivan A. Schlager, staff counsel; and Kevin M. Dempsey, minority staff counsel.

OPENING STATEMENT OF SENATOR HOLLINGS

The CHAIRMAN. The committee will come to order.

For the last 12 years, real wages for working men and women have steadily declined. This is the legacy of a trade policy that placed its faith in the so-called magic of the marketplace. The only magic performed by the market was a vanishing act in which 2 million manufacturing jobs disappeared. Where did those jobs go? This ad, which appeared in the April edition of World Trade magazine, gives part of the answer. "Yes, you can in the Yucatan," the ad proclaims, "Where labor costs are less than $1 per hour, including benefits and the turnover rate is less than 5 percent."

At the same time the United States was losing 2 million jobs, at the same time General Motors and IBM were announcing massive layoffs, a jobs boom was taking place south of the border. Since 1986, over 500,000 jobs have been created in the maquiladora sector. Many of these jobs are in factories with familiar names like General Motors, Kodak, and Sara Lee. The downward pressure on U.S. wages and the hemorrhaging of U.S. jobs will accelerate if the administration adopts George Bush's North American Free Trade Agreement—NAFTA.

In the coming weeks, there will be dire predictions of a political and financial collapse in Mexico if the NAFTA is not approved. Once again, American workers will be asked to sacrifice jobs in order to achieve a broader foreign policy goal. This time, assembly line jobs in Ohio and garment jobs in New York are being traded away in order to promote peace and stability south of the border in Mexico. Once again, American workers will have to pay for the mistakes of financial wheelers and dealers. Why are Mexico and Wall Street so hot for a free trade agreement? This agreement's roots lie in the debt crisis and Mexico's need to earn foreign exchange to service this debt.

In the seventies, money-center banks flush with petrodollars flooded Mexico with development loans. The proceeds from these loans, predicated on skyrocketing oil prices, were wasted on Mexico's inefficient state-run industries. Not to worry though, former Citicorp Chairman, Walter Wriston, proclaimed, "Countries don't go bankrupt."

Well, in the 1980's oil prices collapsed and Mexico found itself in hock to the tune of $100 billion with no visible means to continue to service this crushing debt burden. In 1982, President Lopez Portillo shocked Wall Street by announcing that Mexico no longer would make payments on its debt. To prevent the country from sliding into economic chaos, and at the behest of key international lending agencies, Mexico embarked on an economic odyssey that was a radical departure from its past. The foundation of the Mexican revolution was a revolt against foreign domination of the Mexican economy. For some 40 years, nationalist Mexican governments tightly controlled foreign investment and tightly controlled access to the Mexican economy. However, faced with the prospect of insolvency, with access to capital severely limited, the Mexican Government took down the "Gringo go home" sign and threw out the welcome mat to foreign investors. Offering an abundant supply of labor willing to work for subsistence wages and a regulatory regime that would make libertarians blush, capital has been pouring into Mexico. Since President Salinas came to power in 1988, over $26 billion has been invested in Mexico, and over 500,000 new jobs have been created in the maquiladoras. This occurred at the same time that U.S. industry was starved for investment capital and at the same time that U.S. companies were slashing payrolls to improve their balance sheets.

Let's be clear what NAFTA is about. It is not about opening markets for U.S. exports. The Mexican middle class is still small, the per capita income hovers at $2,000. Yes, we ran a balance of payments surplus vis-a-vis Mexico, but much of that comes from trading with ourselves, selling tools to U.S.-owned factories or parts to U.S.-owned factories for reshipment back to the United States. NAFTA is not about exports, it is about securing investment rights and ensuring that Mexico's free market reforms are locked in by an international treaty, just in case Mexico ever has a democratic election that produces a government hostile to foreign investment.

The shock that surrounded the state of Yucatan's crass advertising campaign is nothing new to those of us who have been following the flight of U.S. business to south of the border. In fact, at the outset of the NAFTA campaign, materials distributed at a seminar sponsored by the Department of Commerce and attended by former Commerce Secretary Robert Mosbacher and Mexican Commerce Secretary Jaime Serra Puche, touted the fact that U.S. industry could save almost $15,000 per worker by moving to Mexico. While NAFTA proponents argue that the agreement will raise Mexican wages, the fact is that the Mexicans are bound and determined to pursue a low-wage high-productivity strategy to lure badly needed foreign investment. In fact, as a Business Week cover story detailed, the cornerstone of Mexico's development strategy is the so-called solidarity pact between the government-run unions and the industrialists who support the ruling party. "El Pacto," as it is known in Mexico, guarantees that wages will be held in line. Some business analysts predict that by the midpart of the decade, Mexican wage rates will rise only to $1.75 an hour, putting more downward pressure on U.S. manufacturing wages.

The economic recovery in the United States has failed to significantly increase employment. The administration's admirable plan to stimulate job creation and increase the skills of the U.S. workforce is entirely inconsistent with a hemispheric trade bloc predicated on beating down wages. I want a stable neighbor south of the border, but we won't create stability by moving companies to exploit citizens. Look at the example of the European Community. It took years and billions of investment subsidies for the Community to integrate Spain, Portugal, and Greece into the European Community.

Thirty years ago, a young, vigorous President offered a different vision for Latin America. President Kennedy did not encourage the exploitation of labor. He did not tout the region's "low wages." Instead, he offered hope, he offered an "alliance for progress" that would uplift the economies in Latin America and bring them into the modern era.

It is time we broke with the failed trade policies of the Reagan/Bush era. It is time we focused instead on a comprehensive strategy that will reduce corruption in Mexico, reduce exploitation of Mexican workers, and encourage true democracy to Mexico, while at the same time rebuilding America and restoring credibility to the American dream. The current NAFTA agreement is a fateful step in exactly the wrong direction.

We just heard from Ambassador Kantor on the car phone, and he will be here in just a few minutes. And we can, I think, begin with some opening statements. Senator Exon.

OPENING STATEMENT OF SENATOR EXON

Senator EXON. Mr. Chairman, thank you very much. I am looking forward with keen interest, as I am sure many are, to the deliberations today. I would just like Ambassador Kantor to know, and the other members of the committee, that 2 days ago I chaired a hearing on the NAFTA proposition with special reference to transportation interests. This is a concern, I think, that many share. And post-NAFTA transportation harmonization and the talks that are going to be involved therein, may be used to undermine U.S. truck weights, lengths, and widths rules, which is basically into the safety matters that this committee and my subcommittee have been addressing for a long time. I think that is a major problem.

Regardless of the letter of agreement, low-paid Mexican drivers will engage in U.S. domestic shipments of goods from the U.S. points to U.S. points. Transportation investments are fundamentally unfair, it seems to me, in many areas as they affect U.S. firms. The agreement leaves untouched, as I understand it, the extremely high grain transportation subsidies to Canada, and while we focus, Mr. Chairman, on the United States and Mexico, Canada is also a part of this agreement and we had better have an understanding on that.

I certainly will want you and the others to know that the agriculture community in Nebraska is deeply split on these matters.

Nebraska's corn growers seem to support the agreement and some of Nebraskan meat producers seem to support it also. However, Nebraska's wheat, dry beans, and sugar beet growers are strongly against the agreement as it now stands.

Our experience with the Canadian Free Trade Agreement in agriculture is that in several sectors—namely, wheat, beef, and pork—assurances given to the Congress and the American people by Clayton Yeutter at that time and others were at best illusionary.

I want all to know that I am not yet sure what my final position will be on NAFTA, and I will have to wait to see what kind of side agreement—or call them what you want—can be negotiated. I certainly want to give the Ambassador and the President the opportunity to negotiate the best side agreements and clarifications possible.

That being said, you certainly should understand that there may be a great deal of difficulty winning my vote on this agreement. When I look back and see about other trade agreements, how unfair some of those agreements have been to agriculture, too often, our negotiators take American agriculture for granted.

This is one of the most productive and efficient industries, and by and large a measure of comparative advantage, they should enjoy full access to any market. Chipping away at the economic powerhouse which is agriculture, or trading away important agricultural markets, will not only doom this agreement, it may also have a very adverse effect on the American economy.

Mr. Chairman, thank you for allowing me to make these opening remarks. The CHAIRMAN. Thank you. Senator Packwood.

OPENING STATEMENT OF SENATOR PACKWOOD

Senator PACKWOOD. Mr. Chairman, thank you. When I sat down, the chairman said "Here comes Free Trade Packwood," and I said "Yes, Mr. Chairman, it is only the third round of a long 15-round fight."

I do not know what Ambassador Kantor could say to me today that would deter me from supporting NAFTA. I suppose, Micky, if you work hard at it maybe you could do something. But I am a staunch, 100-percent, full-scale supporter of NAFTA, of the Uruguay Round if we get a fair agreement. I think NAFTA is a fair agreement. I am tired of the Chicken Littles of this world who think America cannot compete. We compete very well except for oil and cars. Oil and cars.

We have a merchandise trade surplus in this country. And I mean merchandise, not counting services. Cars are our own fault. We had that market. We threw it away to the Japanese in the midseventies. To their credit, the worldwide market system has worked, and our automobile manufacturers are doing well and are taking back market and are producing quality cars. It took them 15 years to get there, but they got there.

But in the midseventies, they came and testified before this committee. The chairman and I were members of the committee, Senator Danforth was. They could not meet the mileage standards. America did not want those cars, those midsized cars that would get 25 or 30 miles to the gallon, so they threw the market away.

Oil is our own fault also. Every time we find any oil, the environmentalists do not want us to drill for it, and they do not want us to dig any coal or burn any coal or build any dams or build any atomic generating plants. It is no wonder that we import some portion of our energy.

I played squash this morning with a friend of mine that used to work here that now works for British Petroleum. I asked him what he is doing today. He says he is going to an all-day 8-hour class that British Petroleum is putting on on Kazakhstan, because they are negotiating a large oil production agreement with Kazakhstan, oil we could probably produce someplace in this country or offshore, in Alaska or in ANWR, but we are not going to. But we could.

But for us to complain that we cannot compete is just ridiculous. My own State of Oregon has large agricultural exports. We export 80 to 90 percent of the wheat that we produce in Oregon and Washington. We have a large electronics presence in Oregon that is historical. Several large companies were founded there, and they attracted other companies, and so we have large Hewlett-Packard plants, Intel, Tektronics.

You talk with them about can they compete overseas, and Intel says, "You bet." Intel just this year took over, became the biggest chip seller in the world, overtook the Japanese companies. I asked them about NAFTA and will they move to Mexico, and they kind of laughed.

You ask the electronics companies what their labor costs are as a percentage of their total production costs, oh, 7, 6, 8 percent. That is their floor labor, it is not the research and developments, it is not their officer corps, but those are not—nobody is talking about moving anyway. They are not going to move to Mexico because their labor costs might be cheaper when labor costs are such an insignificant part of their total cost.

Well, I will give you a different industry: Freightliner, the company that makes those gigantic trucks. Freightliner has a major, major plant bordering close to 2,000 people in the Portland area. They, last year, became the biggest manufacturer of those large trucks in the United States, just overtook their competitor. At the moment, they send trucks to Mexico in kit form and assemble them there because they are required to.

They have indicated as soon as this agreement—and they bought a distribution company in Mexico. They had to do this to be able to sell. They say as soon as this agreement is in force they are not going to move to Mexico, they are going to quit sending the kits there and they are going to manufacture all the trucks in the United States and send them down because it is a cheaper and better way to do it.

And this is a plant that is organized either—I cannot remember if it is the Machinists or the United Automobile Workers, but in either event it is an organization of very high-paid labor. And they know full well they compete and can compete.

Now, are some industries going to move? Sure. Some of the low-wage industries are going to move. I talked with the President of Spring Mills, who was here just before just to recheck my facts, and he verified I was right. And I am doing this from memory. The

Congressional Research Service did a study for me a couple of years ago on exports of apparel and textiles over the years.

Twenty or 25 years ago, Japan was in either the top five or the top six on the export of textiles and apparel—20 years later, they are still a major competitor in textiles. They are not in the top 20 on apparel. That business has moved to Pakistan or Thailand. It does not even move to Singapore or Taiwan, which are higher wage countries. So, apparel has moved offshore. Textiles have not. They are capital intensive. You can invest money and you can compete in the world.

I would hope that this Congress has not come to the place where we think that we cannot beat the world at what we are best at, which is high-wage, intellectual competition. And if we expect to sell the products of those companies, then foreign countries are going to have to make something and sell it to us so that they can afford to buy those products.

You will not find a stronger supporter of NAFTA. I am delighted with the President and his position on it. I hope that we do not get mixed up too heavily with these labor and environmental agreements. I will look at them. I hope I will be able to support them.

I guess the bottom-line question I would ask is if we get no NAFTA, is that going to make Mexico a less desirable place for business to go? Is that going to improve their environment? Is that going to improve their wage standards if there is no agreement at all? My hunch is no.

If a company wants to go to Mexico today, it can go. There is very little barriers. Coming into the United States, automobiles are 2½ percent. Why do the auto companies not go to Mexico now and manufacture all their cars there, if the only limitation is a 2½ percent tariff coming into the United States? And the answer is for high-skilled products, this is still the best place to manufacture. And for us to throw away that advantage and claim that we cannot compete when we have shown we are successfully competing—as I say, except for cars and oil and that is our fault, not anybody else's.

Mr. Ambassador, I am delighted you are here, and I hope you would sent this agreement to us soon and we pass it overwhelmingly.

The CHAIRMAN. Senator Dorgan.

STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. Mr. Ambassador, I will ask the chairman to include in the record my statement.

[The prepared statement of Mr. Dorgan follows:]

PREPARED STATEMENT OF SENATOR DORGAN

Mr. Chairman, for twelve years, the people of this country heard that nothing had a price. Lunch was free and dinner too.

The government could balance the budget by giving more tax breaks to very wealthy people. That was the rising tide that would lift all boats. We could promote a thriving Savings and Loan industry by freeing it of most regulations. That was the magic of the marketplace.

Today we are considering the final legacy of that kind of free-lunch economics—the proposed North American Free Trade Agreement. By hastening the flight of American factories to Mexico, this agreement will—we are told—promote jobs and prosperity in the U.S. This is the receding tide that supposedly will lift all those boats that supply side economics left stuck in the sand.

I am not persuaded. The proposed NAFTA contains far too much that American producers should not have to accept. It was concluded in haste by the Bush Administration, just in time for the Republican convention last summer. It makes far too many concessions, while getting far too little in return. Reading NAFTAs provisions, one would think Mexico were the world superpower, and America the supplicant for that country's good graces.

To understand what's wrong with NAFTA, I strongly recommend an op-ed piece that appeared recently in the Wall Street Journal. It is by Mr. Jeffrey Gannon, chairman and CEO of General Electric of Mexico. Mr. Gannon is arguing for NAFTA, and his piece appears to be part of the public relations offensive that the corporate world has orchestrated to that end. Yet it ends up showing why so many have deep reservations about this treaty.

Apparently, NAFTA has had an unexpected effect upon corporate leaders like Mr. Gannon. It has inspired in them the spirit of charity. The reason they support the proposed treaty, they say, is not because it will enable them to move their plants to Mexico and pay workers $1.00 an hour. No, they really support NAFTA because it will be a boon to workers here in the United States.

The key sentence comes towards the end of Mr. Gannon's piece. It has the careful ambiguity of someone who knows they're in a tight spot and is trying to wriggle out. Mr. Gannon has just acknowledged that well, yes, some corporations just might move their plants to Mexico to take advantage of the cheap labor there. But wait! Other production might come North, he says, when a plant in Mexico is run down and needs repair.

"Under a NAFTA scenario," Mr. Gannon writes, "G.E. would evaluate plans to scale down those (Mexican) plants and meet the demand for their markets from existing production capacity in the U.S."

Note that phrase carefully: "evaluate plans." That's the commitment—G.E. isn't promising to come back to the U.S. It's promising only that it will think about doing so. Imagine how the Journal's editorial writers would howl, if President Clinton promised only to "evaluate plans" to cut the federal deficit further, instead of committing himself to actually do so.

And that's the story of NAFTA, in one short phrase. The supporters of this agreement are full of promises: for workers, for farmers, for regions of the country like mine that have been struggling to hold people and jobs. They tell us with sunny faces that this agreement will promote, as Mr. Gannon puts it, "growth and jobs in the U.S."

But when it's time to sign on the dotted line, the sunny faces disappear and the executives go scurrying to the restroom. The only solid guarantees go to corporations like G.E., that will be able to move their plants to Mexico any time they want, and ship their production back into the U.S. That's in writing. The firmest guarantees of all go to drug companies and others that get absolute protection for their patents—their "intellectual property." This could prevent the U.S. from stopping price-gouging in prescription drugs in the future.

Such protections are guaranteed. By contrast, the protections for American producers and the public are nothing but promises, written in the air.

Since I represent a farm state, I'm especially concerned about the way NAFTA would affect America's farmers. But the threat to farmers merely illustrates how NAFTA would tilt the table against American producers generally. Farmers can't pick up their fields and move to Mexico, the way corporations can move their factories. They are American or they are nothing; regrettably, that's how NAFTA treats them.

Put simply, farmers have been down this road before, and they've been badly burned.

Back in 1988, Mr. Clayton Yeutter, then the U.S. Trade Representative, appeared before the House Ways and Means Trade Subcommittee to quiet concerns about the U.S-Canada Free Trade Agreement. Our wheat farmers saw that Canada could take advantage of the agreement to dump subsidized grain on the American market. But Mr. Yeutter was full of assurances.

The administration would monitor the volume of Canadian shipments into the U.S., he said. Canada would continue its "restrictive policy" regarding export licenses for Canadian grain producers for this trade. Overall, he said, the two sides would take a "cooperative, mutually beneficial approach" regarding wheat.

That sounds a lot like the assurances we've been getting regarding NAFTA. But when Mr. Yeutter talked about "benefits," he apparently was wasn't thinking about America's farmers. Rather, he must have had in mind the corporate food processing industry, which would benefit from underpriced Canadian wheat.

At least, that's how things turned out. Canada flooded our market with tens of millions of bushels of durum wheat—the kind used in pasta—along with spring wheat and barley. The Canadian government subsidized this grain heavily, through direct payments to farmers and through rail freight rates.

As a result, the grain sold in America for less than the cost of production. Our own farmers cannot compete at those subsidized prices, and the durum acreage in my state has dropped by almost a third since 1989.

Still, we were told that this was not a problem. The Canadian treaty established a special panel to halt such abuses, and all would be well. Well, recently this panel reached a remarkable conclusion. It decided that the Canadian subsidies in question didn't count as subsidies for purposes of the treaty. So the Canadian producers can continue dumping their grain on our market, undercutting our own farmers.

I've told this story before. But the message just doesn't seem to get through. The Bush Administration modeled NAFTA on the Canadian agreement. What our wheat farmers have gone through with Canada, other American producers might easily suffer again if we approve NAFTA in its present form.

In some respects, NAFTA is even worse. Time and again, we find that Mexican producers get open markets, while American producers face continued barriers.

Potatoes are an example. America will phase out its tariffs on potatoes over five years, while Mexico will have ten years. Beans are another example. America has to drop its tariff immediately, while Mexico gets to raise its tariff to 130 percent of the current level—and cut its import levels to boot. I wish that the high-minded free traders in this town would explain provisions like that one.

American food processing also would take a hit. Processors in Mexico will be able to sell virtually every last french fry to America, while Americans will be shackled with even tighter quotas in Mexico than exist now, along with continued tariffs for ten years. This probably won't hurt the corporations much. They can just close their plants and move to Mexico. They can enjoy the low wages and tariff protections down there, and have free access back into the American market.

No wonder they're so enthused. For them the deal is risk-free. But for our rural areas, NAFTA could easily become an economic sump pump, draining out the jobs and industry these areas have labored so hard to attract.

This is not idle speculation or alarmist polemics. It's plain to anyone who can understand that water seeks the lowest level—that trade isn't fair if it's not free on both sides. Two economists who studied NAFTA from the standpoint of rural America observe what should be clear to all of us. "[F]ood processing, furniture, auto parts, and consumer electronics are * * * largely rural industries that will experience the pressure of much lower Mexican wages," write Amy Glasmeier of Penn State University and Michael Conroy of the University of Texas, in a recent paper. "These industries came originally to rural America because wages were lower, regulations less stringent, and the cost of doing business less onerous.

And now they will be flowing South of the border because wages, regulations and costs are so much more favorable down there.

When members of Congress try to make that point, the establishment media promptly calls us "protectionist." The media wants us to be destructionist—to use the power of government to force American producers to battle unfair trade practices in their own country. The American people did not send us here to Washington to do that.

NAFTA represents the interests of corporations that can move South. It does not address the needs of loyal Americans—farmers and workers both—who must stay put and who want to help this country prosper. That is why the treaty must be changed. We are here today to find out how.

Mr. Chairman, thank you for holding this hearing. I look forward to the testimony that will be presented at this hearing.

Senator DORGAN. I do want to say that you, in my judgment, are a shaft of light in what has been a dark root cellar of trade for some long while. Those of us that have fought the Canadian problems, problems that occurred because we were deceived. It was not a mistake, we were flat out deceived in writing, in the law, in representations by trade officials. But you have taken a different approach and a more aggressive approach and a fairer approach, and I want to say that I appreciate that. That is a real breath of fresh air.

I could not be farther from the position of my friend from Oregon. I think that Leon Panetta is right. I regret that someone as good as you is having to pull a wagon as heavy as NAFTA up on this Hill. I think if you just take a bean, just look to this through the journey of one bean, you would have to read Spanish to do that because the bean provisions are printed only in Spanish, I understand.

But a bean, the quota on beans, if you happen to be a farmer raising beans, will be reduced from what we have sent to them in recent years to Mexico, so we will have a quota imposed below what we have historically sent to Mexico and a 130-percent tariff on beans sent to Mexico above that quota, which is lower than previous shipments.

And you know, you wonder, how would negotiators arrive at that position? I could spell out the movement through the eye of a french-fried potato, a Mexican french fry coming north, an American french fry going south. I could spend a lot of time talking about how our negotiators apparently lost on agriculture, but they did it systematically, routinely, they did it on the Canadian agreement, they have done it on the NAFTA agreement, and all the side dishes in the world are not going to protect the main meal that is bad.

As far as I am concerned, I think Leon is right about this. I hope we can start over and, instead of having a thoughtless debate about free trade start talking about what really matters, can we develop fair trade relationships with other countries which expands our trade opportunities.

Mr. Chairman, thank you for calling this hearing, and Mr. Ambassador, I am delighted to see you.

The CHAIRMAN. Senator Gorton.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. Mr. Chairman, I have made plenty of speeches already in favor of NAFTA, and I will make plenty more. I subscribe to everything my friend and colleague from Oregon has said, but I am here to hear the Ambassador, the beginning of whose career I think has been stellar. I have just been delighted the way in which he has handled a number of issues which have faced him, and I am here to hear him and not myself.

The CHAIRMAN. Very good. Mr. Danforth.

OPENING STATEMENT OF SENATOR DANFORTH

Senator DANFORTH. Mr. Chairman, thank you very much.

Mr. Ambassador, welcome to the Senate Commerce Committee. Last week, 27 Republican Senators signed a letter to the President in an attempt to make the point that there really is room for bipartisan and for breaking gridlock, as it has been called, in this Government. Twenty-seven Republican Senators, a strong majority of us and more than our share of what would be necessary to pass NAFTA, applauded the President's support for the North American Free Trade Agreement and encouraged him to go forward, present it to us, and said that we fully intend to support NAFTA.

This is a very important agreement for the commercial interests of the United States. There is no doubt about it that right now Mexico is a major job producer for the United States—600,000 American jobs are owed to exports to Mexico today, and that is projected to go up to 1 million jobs by 1995, this despite the fact that under the present state of affairs, the rules are terribly unfair for American business and for American workers.

Right now, under the current state of affairs without NAFTA, Mexican tariffs are 250 percent higher than the average U.S. tariff—50 percent of all Mexican goods imported to the United States already enter into this country duty free, yet their tariffs are 2½ times what ours are; 25 percent of the agricultural exports from the United States to Mexico are subjected to restrictive import licensing requirements. Mexican law currently requires that autos sold in Mexico contain 36 percent Mexican parts, and that the U.S. auto companies export twice as many cars from Mexico as they import into Mexico. These are unfair rules of trade that now exist.

The Mexican maquilladora program allows firms to set up plants along the border and import foreign parts into those plants duty free, so long as the finished goods are exported from Mexico. That is the duty drawback scheme. It is very unfair to America, to American employers, and to American workers, as well. And it is time that we address these unfair provisions in the current rules, and that is what NAFTA does.

NAFTA immediately eliminates tariffs on 50 percent of U.S. exports to Mexico, immediately eliminated under NAFTA. Virtually all U.S. exports would enter Mexico duty free in 10 years. The duty drawback features of the maquilladora program would be ended, and in general, what NAFTA does is create more fair trading rules for the American people.

Now, the 27 Senators who signed that letter expressed our concern with the so-called side agreements, and I want to emphasize to you the fact that this is a very serious concern. My own nightmare is that something that I have already worked hard on—namely, the North American Free Trade Agreement when we got the fast-track authority—will be turned into something that is very unattractive as far as American interests are concerned by the side agreements.

The proposal that was made a few days ago by the environmental groups is, in the opinion of this Senator, a disastrous proposal, setting up a whole new bureaucracy, what is called a secretariat by those who were proposing the scheme, a whole new overlay of environmental regulations on top of what will now become a department of environment within this country. And if that kind of side agreement is entered into and a similar situation with respect to labor standards, I can really see that instead of something that will be very beneficial for American commercial interests and American jobs, it could be transformed into something that is highly undesirable.

So, I want to encourage the administration to go forward with NAFTA. I want to encourage you and the President to do everything you can to demonstrate your strong support for NAFTA, and I also want to encourage you to be very, very cautious with respect to the side agreements.

The CHAIRMAN. Senator McCain.

OPENING STATEMENT OF SENATOR McCAIN

Senator McCain. Thank you, Mr. Chairman. It is very difficult for me to elaborate or expand on the views articulated by my friend from Oregon and from my friend from Missouri. I would just like to reiterate a point that I know that Mr. Kantor is very familiar with, and that is the effect on Mexico if this agreement were turned down.

I think all of us applaud the steps taken by President de la Madrid and President Salinas in opening up their markets, privatization of industry, encouragement of U.S. investment, and U.S. trade has literally skyrocketed in the years of President Salinas, and as I mentioned, the groundwork laid by his predecessor.

I do not think there is any observer of Mexican politics who would disagree that if this agreement were turned down Mexican politics will take a sharp left turn, that there will be a reemergence of the protectionism and State control of the economy of the past, and it would be a significant—perhaps not insurmountable, but very close to it—setback to United States-Mexico relations, which throughout our history have not always been of the best. And I would hope that the opponents of the North American Free Trade Agreement would take into serious consideration the devastating impact and the ensuing impact on the U.S. relations with that country.

One of the many aspects of it would be a dramatic increase in illegal immigration, in my view, that would ensue if this Nation, if this Congress, decided to go against the stated desires of the President and the majority, in my view, of the American people, and that is to turn down this free trade agreement.

Mr. Chairman, I could go into the virtues of free trade and review, Adam Smith's wonderful work, but the fact is that I believe that we should also consider the impact on our relations with Mexico in the event that this agreement is not pursued to its ultimate completion.

I thank you, Mr. Chairman. I thank you, Mr. Kantor, for being here.

The Chairman. Senator Gregg.

OPENING STATEMENT OF SENATOR GREGG

Senator Gregg. Mr. Kantor, you cannot get much further from Mexico than New Hampshire and still be in the continental United States. But the ability of New Hampshire to trade with Mexico is imperative to our job creation atmosphere in New Hampshire. And, in fact, if you take the North American Free Trade Agreement, 30 percent of the exports of New Hampshire are to Mexico and Canada combined. Canada is our first trading partner in New Hampshire and Mexico is our eighth largest trading partner.

We estimate that over 4,500 jobs have been created in New Hampshire since 1987 as a result of trade with those two countries. And it is because New Hampshire, like most of New England, is a region of the country which has high value added products, particularly technology and electronics products.

And we see the North American Free Trade Agreement as absolutely critical to the economic revitalization not only of New Hampshire—but I can speak for the New England Governors, because as chairman of the New England Governors' Conference 2 years ago we strongly endorsed NAFTA and did a number of studies which concluded that New England would be a net winner. And New England has been through some tough economic times and we could use something it would be a net winner on.

So, we strongly support, as a region, NAFTA, as a concept and as something that should be enacted into law. And we hope that it will not get sidetracked on issues which are important to address, such as the environment and the labor issues, but which can be addressed without having to sidetrack the NAFTA agreement. And so I strongly endorse this effort and commend the administration for pursuing it.

Thank you.

The CHAIRMAN. Senator Lott.

Senator LOTT. Thank you, Mr. Chairman. I am here to listen to the witness and I will look forward to hearing what he has to say.

The CHAIRMAN. Senator Rockefeller.

OPENING STATEMENT OF SENATOR ROCKEFELLER

Senator ROCKEFELLER. I would like to be able to say that too. And I am guilty, Ambassador Kantor. I know that you came here to hear me make an opening statement, but I really want to make a short one and hope you forgive me. And the Braves lost last night, so I am not in a good mood.

Mr. Chairman, I thank you.

Much of the current NAFTA debates needs to be, in my judgment, refocused. The key issue has been correctly identified; whether NAFTA will accelerate the movement of jobs out of—toward, southward to Mexico. The point that has been missed and the point I want to make is that NAFTA is more reaction to that problem than it is the cause.

Unfortunately, this movement has been taking place for a long time. Direct experience in West Virginia: Last week one of our major employers, Phillips, announced plans to transfer two of its production lines from Fairmount, WV, to Mexico. That really helps.

Now, these moves occur, in fact, for many reasons, but primarily for those cited most often by NAFTA opponents: lower wages, less aggressive enforcement of health, safety, and environmental laws in Mexico. The mistake that skeptics or opponents of NAFTA must guard against is to pull the wool over our own eyes and pile all the blame of jobs investment loss under the prospect of NAFTA.

In fact, it is the low-wage, low-skill policies of both our Government and the Mexican Government that are to blame. NAFTA may accelerate the trend, but defeating NAFTA will not stop the trend. And if NAFTA opponents defeat the treaty, they may win the battle but they could still lose the war unless we deal with the bigger picture.

Substantial work has been done on examining Mexican low-wage, low-skill policies, and forming proposals to deal with them. Most are aimed at raising Mexican wages and tightening enforcement; I understand that. President Clinton's decision to negotiate additional agreements on worker rights, the environment, shows that he understands that creating a common base of standards in enforcement practices is essential to creating a free-trade area. And he understands that such standards and practices cannot be less than what the United States currently enjoys.

That effort, however, is devoted to narrowing the gap between the United States and Mexico by raising standards in the latter, that is Mexico. Even under the best of circumstances, that is going to take time and will only be partly effective. It is simply unrealistic to assume that we can eliminate all incentives to move production to Mexico through the negotiations now ongoing.

The missing part of the equation, to this Senator, must be policies to create high-wage, high-skill jobs here in the United States. A proactive policy on our part regardless of NAFTA, and to make sure that our workers are prepared for those jobs, which they are now not. Unless we take those steps, I fear the erosion of our sophisticated manufacturing base and worker dislocation over the rest of this century will cripple our economy and any chances we are talking about for renewed growth.

So, the development of intelligent and effective worker training programs is underway. And we are told to expect an announcement from the administration in the next month or two on this subject, and I assume that will be substantive and important. Equally important is making sure there are high-wage jobs for these retrained workers to fill, and that is a far more difficult task.

One part of the answer is enactment of the President's investment proposals, including the technology and manufacturing ideas that are within the jurisdiction of this committee and this chairman. Only by maintaining our lead in critical technologies and advanced manufacturing techniques, and by disseminating them and widely throughout the country, can we make sure that our economy continues to create the high-wage, high-skilled jobs that we need.

Obviously, we cannot load all that onto NAFTA. But in debating NAFTA, we should not lose sight of the broader needs of our economy. Now or later, NAFTA or not, greater economic integration with Mexico and Canada is inevitable and we must be ready. Enacting NAFTA when we are not ready, indeed perhaps not even aware of the problem, could be a disaster, and that is why I remain in the undecided camp. But I do not kid myself on the subject. NAFTA will not be the cause. NAFTA will not be the solution.

So, I end by saying it would be an even greater disaster to debate NAFTA without understanding and acting on what is really important for our long-term growth, which is something called high-wage, high-skilled jobs.

I thank the Chair for that lengthy statement.

The CHAIRMAN. Senator Kerry.

OPENING STATEMENT OF SENATOR KERRY

Senator KERRY. Thank you, Mr. Chairman. I also will not make a long statement, and I ask unanimous consent that any formal comments I have be placed in the record.

The CHAIRMAN. They will be included.

Senator KERRY. Senator Rockefeller has said much of what I would have said or wanted to say. Mr. Ambassador, thank you for meeting the other day, and I appreciate enormously the time and energy you have put into this. I think you have been doing a terrific job to date, and have raised important concerns.

I take it some of my colleagues, prior to my getting here, raised questions about side agreements and the impact they may or may not have on this process. And I would just like to say from certainly my perspective and the perspective of many of us who voted for fast track—and took a lot of criticism for it, we did so because we believed the President needed to be able to negotiate an agreement and needed the dynamics which the fast track created so he could. And that we, then, had a right to look at the agreement and make some judgments about it.

And I think most people have made a judgment, including the President during the course of the campaign, that the agreement that was reached, while in principle one that most of us would like to advance and want to be able to vote for, does still have some deficiencies. And the question is whether you can put the President of Mexico in a position against his stated position of not reopening it and still deal with some of the reality of these deficiencies.

You cannot look at this agreement and not come to a conclusion that there are some problems in the language in defining how we are going to deal with environmental enforcement. What do you do in terms of resolution of those disputes now? What mechanism is there for public involvement? How are we going to pay for some of the cleanup? What happens if this agreement is unclear as to whether or not a State law is preempted if it is more strict than national law, and therefore companies might decide they want to go to Mexico because it is a way to get out from under the U.S. environmental goals?

This obviously could run counter to our national interest and our national policy. I see no difficulty, and I think you, Mr. Ambassador, have stated well both your intention as well as the path you intend to follow as to how you are going to resolve some of these kinds of issues.

I think it is terribly important for us to be able to answer to our workers in this country how this playing field we are now setting up is not going to just be a replica of the current playing field which most people sense is unfair. We must bend over backward to create a fair playing field, and I think that the side agreements are, frankly, essential to our capacity to do that, and I think you are of that same opinion.

I want to just ratify also what the Senator from West Virginia has said. We do not have NAFTA today. There is no NAFTA agreement and companies have gone to Mexico. They are going to go to Mexico tomorrow and the next day. And there is not any law that I know of that you can pass in the United States, unless we totally turn our capitalist system topsy turvy, that will prevent them from doing so.

Right now their tariffs are higher than ours. And the question is whether or not we are going to set up some sort of regulatory scheme where the flow of goods begins to move the other way and where we are raising the standard of behavior and minimizing the prospects that those companies are just going to continue to go there without any impact whatsoever on our side.

And I hope this agreement is going to be able to arrive at that. I think you have got a tough task, but I do think you are on the right track right now.

And I thank you, Mr. Chairman, for having these hearings, because I think it is terribly important we begin to air the labor standards/environmental side agreements, and what we really can achieve without creating more bureaucracies and more problems.

I thank the Chair.

The CHAIRMAN. Well, I thank you, Senator.

Ambassador Kantor, you can see the intense interest and the statements made constrain me to then make an opening statement that I usually waive.

But with respect to Mexico we have a problem. With respect to the United States we have a problem. The problem has been persistent in Mexico and we have tried to work on it. We learned long ago from President Kennedy that you just cannot do it with money or the economic approach. You first must have, as President John F. Kennedy said, "a social compact and build up the social infrastructure."

The Europeans understood this when they brought—the British bringing Ireland into the European free trade fund and social fund. And then when the European Economic Community was bringing in Portugal and Spain, they set up a fund 15 years ago and it has spent $5.8 billion for each of the past 15 years bringing Spain and Portugal up to the wage levels, proficiency levels, and otherwise. And more particularly, free press, free elections, and what have you.

Now you have got Germany with a far more—East Germany, they are far greater developed. They have got a infrastructure, they have got a skill, they have got an industry, they have got everything else that Mexico does not have. And yet West Germany is spending $100 billion to bring East Germany in.

And now without spending a dime, we come along with the so-called free trade agreement and try to do it all there. And the great danger is rather than harmonizing up and building a middle class down there, you are going to harmonize down and what is left of jobs and what is left of the middle class will be torn asunder right here in the United States.

I cannot understand an administration going in two different directions. They have been jobs, jobs, middle class, middle class, jobs, jobs, middle class, and then come along with this agreement. This talk of who can we compete with. What is that, patriotism, Ambrose Pierce said years ago, "the last refuge of scoundrels." We know we can compete.

But the U.S. News today, or whatever the paper is, said this morning that you are a pragmatist. And I am a pragmatist and I am looking then at the problem I have.

And Dr. Thurow testified last year and he will reaffirm it, that the census figures show not only the unemployment, but in the United States that age group between 18 and 24 cannot find a job. Or if they can, they cannot find a job out of poverty. Now this month we are all going to go around making these big graduation talks of futures. They walk out and there is no opportunity at all.

Right at the end of the cold war, the fall of communism, I am trying to rebuild my middle class. I am trying to rebuild my economy. And the hemorrhage I have in maquiladora I want to cut wide open rather than put a tourniquet on it. I mean, come on.

They talk about competing. Just common sense, the conference board, Mexico seems certain to become an important base for Asian or European investors who seek a foothold in this free trade area. That is what is going to happen. We are broke. We are a superpower, but we are superbroke.

So, while I am opening it up on the premise that I am going to get all of these added jobs from exports—and we will correct that particular figure because 55 percent of them come right back in. The capital goods for the maquiladora industries is the parts. The shirts and coats come back in as shirts and coats, back up into the United States. We have been trading with ourselves. So, let us look closely at that particular figure.

But I think I am open enough for an opportunity with the United States. And, yes, a good mission in trying to revive Mexico and build a middle class and bring it into the 21st century. And I find out that the Asians and the Europeans are going to pick up the ball and run with it.

The Bank of Tokyo, bullish on Mexico. Hong Kong companies, in Business Week, are all ready to cash in on NAFTA. With an eye on NAFTA—the Journal of Commerce—United States-Mexico firms join to provide real estate services. We are seeing a dramatic increase in the number of companies seeking locations in Mexico, said Frank Benschwanger. Benschwanger said there has been a "tremendous amount of movement by European, American, and Japanese companies into Mexico to take advantage of NAFTA."

I believe in free trade. I voted for the Canadian Free Trade Agreement. But the question is how to do it. This last crowd in town for 12 years said let us have an appeasement trade policy, and you have come and started some competition and they are writing all these funny money editorials about you: Which way are you going, what kind of policy have we got?

A pragmatic competitive trade policy. As Roosevelt said, in the depression in order to keep the banks open he closed the doors. In order to save the farms he plowed under the crops. In order to remove a barrier, raise a barrier and remove them both. Let market forces operate, but do not kid yourself about a free market in Mexico. How in the world can you have free trade in Mexico when they have not had a free election.

So, I could go on further, but I can tell you here and now we have got a serious problem at this particular hour in our country. I am worried about the deficit. I am worried about the debt. But if we balance the budget in the next 10 minutes—there is all of this we are going to get technology.

I was on, 34 years ago, the other side of the table. And I testified before the old International Tariff Commission and Tom Dewey was representing the Japanese and ran me all around the room for 2 days. At that time my textile industry was worried that 10 percent of the domestic consumption would be represented in imports here in the United States. Now I am looking out here, and two-thirds of the clothing is imported—84 percent of the shoes on the floor here are imported.

Well, they told us do not worry about that, what do you expect the LDC's to do, make the planes and computers? We will make the technology. And now they are making the majority of the planes, they are making the majority of the computers, 75 percent of the hand tools, two-thirds of the automobiles, and right on on.

We are losing our industrial backbone because you can manufacture anything anywhere. The productivity in Mexico is high, 85 percent of the automobile worker of the United States. So, let us get off of this idea that somehow or the other we do not have that global economy. We do.

And, yes, do not give me this training, training. There is a fetish in this town about getting training. I have got training coming out of my ears for skills. How do you think I am getting BMW, how do you think I am getting Hoffman-LaRoche, how do you think I get Bosch that makes 100 percent of General Motor's antilock brakes?

Because BMW says in Munich my wage scale is $20 an hour; in Greenville, SC, it is $10 an hour. So, do not talk about low wages as just textiles. It is automobiles, it is everything. Irrespective, of course, of the environment and all these other particular work rules that we talk about.

So, we want to hear you and we will have a round. And everybody get ready for their main questions, because we have got an important panel that will follow up so we are going to use the clock at 5 minutes. And we will only have one chance with this wonderful appearance here this morning. There is one round for one questioning, to move onto that panel.

We will now hear from you, Ambassador.

STATEMENT OF THE HON. MICHAEL KANTOR, UNITED STATES TRADE REPRESENTATIVE

Ambassador KANTOR. Mr. Chairman, I apologize. I do not think even NAFTA will help the Washington traffic. I apologize for being a couple of minutes late.

Let me just say in reaction to your opening statement—and I will if I can summarize my statement and put it in the record to give the members as much time as possible to ask questions that no one ever accused me of carrying an umbrella, so I do not think we have to worry about that.

The CHAIRMAN. Your full statement will be included and you can highlight it as you wish.

Ambassador KANTOR. Thank you very much, Mr. Chairman. I obviously welcome the opportunity to appear before the Commerce Committee and discuss NAFTA and the President's plan to strengthen the NAFTA through supplemental agreements.

In his speech at the American University on February 26, the President laid out his vision for economic growth in America based on expanded trade and opening markets. The objectives of our trade policy are complementary to our domestic strategy to promote U.S. economic growth and create more and better U.S. jobs by opening foreign markets.

Those are consistent objectives whether in our trade negotiations on the Uruguay Round, which has now been reinvigorated, or our bilateral issues with Japan which have been engaged, which would be the most delicate word I could use. Or the implementation of our trade laws which we again announced on Friday of last week. As you know, Mr. Chairman, a special 301 and 306, and also with regard to title 7.

Let me summarize why the NAFTA, accompanied by the supplemental agreements and domestic measures, will strengthen the U.S. economy and promote more and better jobs for Americans.

First of all there is a pervasive myth, Mr. Chairman, which you and I might not agree on but I believe exists that the United States cannot compete with a low-wage country like Mexico. The facts, frankly, belie that myth. Frankly, infrastructure, capital, transportation are 80 percent of the costs of our manufacturing products on the average, and 20 percent is wages. And in fact in the automobile industry it is only 15 percent.

Mexico is our third largest trading partner. It is our fastest growing export market. We have created 400,000 export jobs directly tied to exports to Mexico from 1986 to 1991. 1986 was a critical year, Mr. Chairman and this committee, because what happened is that is when Mexico began to lower their tariff rates down to what is now only 2½ times on the average higher than our tariff rates, still much too high and which the NAFTA will address, but much lower than they were and began liberalize, if I might use that word, in other areas in terms of investment rules. That fueled a huge explosion of jobs in this country, and it is estimated another 200,000 jobs in the next 2 years alone will be created by the NAFTA itself with regard to exports to Mexico if and when it goes into effect.

Our merchandise exports to Mexico have grown from about $12.4 billion to over $40 billion in 1992. That is in just 5 years, the same 5 or 6 years that I was talking about in the growth of jobs.

The export grosses reversed what we had as a trade deficit. We had a $5.7 billion trade deficit in 1986. We now have a trade surplus with Mexico of $5.4 billion. Our surplus in manufactured products in 1992 was $7.5 billion, mostly finished goods contrary to popular myth.

Components for export to Mexico, assembly into finished goods, and returned to the United States are a declining portion of U.S. exports. They were 30 percent in 1987. They are 22 percent in 1992, and going down not up—down not up. I want to make that clear because there is this myth that goes around in the American public and in the Congress, frankly, and even in our administration they have been going up. They are going down.

Capital goods, machine tools, generators, and so on are growing less rapidly than other exports. Frankly, consumer goods sold to Mexico are the fastest growing component of our trade.

Individual success stories are also striking. I will not go through those. I want to leave time for questions.

Mexican reforms in unilateral trade liberalization steps have fueled this growth. Let me give you some specific examples of the kinds of barriers that exist now in Mexico that will be eliminated over time for U.S. exporters. And really following on what Senator

Rockefeller and, I think, what Senator Packwood were talking about.

Mexico's virtual prohibition on imports of cars and discrimination against U.S. automotive parts will be phased out in 10 years. A ban on foreign firms establishing banks or insurance companies will be removed, with the transitional market share limitations phased out by the year 2000.

The NAFTA will eliminate immediately tariffs on over 20 percent, or $250 million of U.S. exports of textile and apparel products to Mexico. And most of Mexico's steep import tariffs on U.S. telecommunications equipment will be eliminated. That is a $6 billion potential market for the United States.

Mexico will eliminate licensing schemes on corn, wheat, and other U.S. agricultural products which have meant until now that we sell no more corn and wheat to Mexico than the Mexican Government chooses to allow.

Mexico's prohibition against U.S. trucking companies carrying cargo to and from Mexico will be eliminated in 6 years. Mexico will eliminate an assortment of requirements that investors in Mexico favor purchase of Mexican goods and service over U.S. and other foreign products.

But if we fail to approve the NAFTA we will not get its benefits. In fact, it could go backward and, frankly, open up opportunities for the Japanese or other countries to come and take advantage of what we will not take advantage of.

To address these and other problems, the President has consistently said that NAFTA is not perfect and we need supplementary agreements in order to strengthen the NAFTA and make it in the best interest of U.S. jobs and U.S. businesses.

Some of these elements we will implement through domestic programs and domestic legislation such as worker adjustment assistance. Others through supplemental agreements with Mexico and Canada or a combination of agreements and steps we take in our domestic legislation.

We need to improve the border environment, and I think there is general agreement on that, ensuring that there are domestic judicial and administrative processes for enforcement of national laws to protect workers' health and safety and the environment.

Frankly, in the NAFTA now there is a commitment by Mexico to improve and reform their court system to protect intellectual property. We believe that could be a model and should be a model to apply those same reforms, or at least somewhat the same reforms where they apply to worker standards, safety, and the environment. We believe those areas are just as important as protecting intellectual property.

We should promote better working conditions and higher pay as productivity rises. We should create strong labor and environment commissions with the capacity to objectively review national enforcement—not tread on sovereignty, not exercise supernational powers, but to objectively review national enforcement to hear and follow up on complaints of the citizens about deficient enforcement, and put teeth into that process, not necessarily give the commissions the right to enforce, but to put teeth into the process, and I would be glad to discuss that if any member of the committee would like to discuss that.

This will be a total package. The NAFTA, the supplemental agreements, and the implementing legislation. This country will be substantially better off with this strengthened NAFTA package than without it or we will not ask for you to vote for it; we will not send it to the Congress.

I think we have two questions in front of us, if I might, Mr. Chairman and members of the committee. Can we make the situation with Mexico substantially better with the NAFTA implementing legislation and the supplement agreements than it is today? And second, what is the evidence that we can do that?

I appreciate the opportunity to be here and, Mr. Chairman, let me say I appreciate your personal kindnesses over the last few months. You have been extremely helpful to me even before I was fortunate enough to be confirmed by the U.S. Senate. And I have appreciated over the years our personal relationship, and I will continue to consult with you on matters that we both agree on and disagree on.

[The prepared statement of Ambassador Kantor follows:]

PREPARED STATEMENT OF AMBASSADOR MICKEY KANTOR

Mr. Chairman, I welcome the opportunity to appear before the Commerce Committee today to discuss the North American Free Trade Agreement (NAFTA) and President Clinton's plan to strengthen the NAFTA through supplemental agreements on worker standards, the environment and import surges.

In his speech at the American University on February 26, President Clinton laid out his vision of economic growth in America based on expanded trade and market opening: competing in, not retreating from, the global economy. This Administration's economic strategy begins at home with the President's economic plan—increasing investment and reducing the budget deficit.

The right trade policies and the right kind of trade agreements will complement and support our domestic strategy. With this objective the Administration is seeking to address our trade problems with Japan candidly and firmly—the best basis for continued lasting friendship. Across the Atlantic, the understandings we reached with the European Community last month will open once-closed markets for U.S. products and lay the basis or concluding a better procurement agreement in the Uruguay Round.

With the same objective of promoting U.S. growth and jobs, the President supports expanded trade with Mexico and Canada. As a candidate, then-Governor Clinton endorsed the NAFTA, provided it was accompanied by effective supplemental agreements and domestic measures. He announced his support in the midst of an election campaign when it would have been, in many ways, politically easier to attack or ignore the agreement.

Let me summarize why the NAFTA, accompanied by the supplemental agreements and domestic measures, will strengthen the U.S. economy and promote more and better jobs for Americans.

One myth we should dispel is that the United States cannot compete with a low-wage country like Mexico. That is nonsense, and a disservice to U.S. workers and U.S. companies. We can and do successfully compete because our workers earn high pay with high productivity. Wages on the average are only about 20 percent of manufacturing costs, and we have a substantial competitive advantage in the other 80 percent—infrastructure, transportation, and capital. As a result, Mexico is our third largest trading partner, behind only Canada and Japan; and Mexico is our fastest growing export market. Our merchandise exports to Mexico have grown from about \$12.4 billion in 1986 to \$40.6 billion in 1992. This export growth has reversed what was a \$6 billion trade deficit in 1986 and turned it into a trade surplus of more than \$5 billion last year.

Of course we should face up to our trade problems where we have problems, but I do think the critics of this trade agreement should honestly recognize that our trade relationship with Mexico is a success story by virtually every measure.

Increased exports to Mexico have come from every region of the United States. For 38 of our states, Mexico is one of the top ten overseas markets. And for 20 states, their shipments to Mexico exceeded $250 million each in 1991.

A look at the composition of our trade with Mexico may surprise you. uur surplus in manufactured products was more than 7.5 billion dollars. That surplus is mostly goods for consumption in Mexico. There is a myth that all we do is send components to Mexico for assembly into finished products, which are then returned to the United States. In fact, components accounted for only about a third of our trade with Mexico in 1987. In 1992, less than a quarter of our exports to Mexico (21.9 percent) were parts for assembly and return to the United States.

Another common myth is that the export increase is temporary because we are selling machinery that Mexicans will use to make consumer products for export to the United States. In fact, while our exports or such "capital goods" rose rapidly (by 133 percent) between 1987 and 1992, that growth was much slower than the 203 percent growth of all other U.S. exports to Mexico. Incidentally, I think our thriving capital goods industries, which support thousands and thousands of U.S. jobs, are justly proud and pleased with their export boom to Mexico. Growing and developing economies need increased capital goods—not just one time, but continually.

Individual success stories are also striking. It is perhaps not surprising that exports of forest products, computers and construction equipment are booming. It may be more surprising that we have sectoral trade surpluses with Mexico in textiles, steel, and dairy.

The textiles story is particularly remarkable. Canada and Mexico are the two largest export markets for U.S. textile and apparel products; they are markets that are growing rapidly. U.S. exports to Mexico of fibers, textiles and apparel have increased by 26 percent on average each year since 1986, reaching $1.6 billion in 1992, resulting in a trade surplus of $81 million in the sector. U.S. exports to Canada have grown an average of 22 percent per year since 1986, reaching $1.9 billion in 1992 and resulting in a trade surplus of $846 million in the sector. The NAFTA builds on the strong, competitive position held by the industry in this sector, and offers new opportunities for our producers.

For a results-oriented trade policy, it is hard to show a better example than Mexico.

The growth in our exports is not an accident. The period of intense U.S. export growth parallels a period in which Mexico has been rapidly liberalizing a formerly protectionist trading regime. Mexican import duties that averaged 30 percent (with some as high as 100 percent) in 1986 came down to an average of about 10 percent by 1992. Sales of U.S. products benefit particularly from lowered tariffs, because of our proximity and the reputation for quality of U.S. products.

NAFTA will open still greater opportunities for U.S. exporters. For products made in the United States and Canada, it will eliminate all Mexican tariffs, which average two and one-half times higher than U.S. duties. It will knock down other forms of Mexican restrictions, such as import licensing schemes, measures favoring Mexican over U.S. products, and a variety of other measures that currently hamper U.S. providers of goods and services.

Let me give some specific examples of the kind of barriers that exist now in Mexico which will be eliminated over time for U.S. exporters:

- Mexico's virtual prohibition on imports of cars and discrimination against U.S. automotive parts will be phased out over 10 years;
- a ban on foreign firms establishing banks or insurance companies will be removed, with transitional market share limitations phased out by the year 2000;
- the NAFTA will eliminate immediately tariffs on more than 20 percent, or $250 million, of U.S. exports of textile and apparel products to Mexico, providing open access to competitive U.S. producers of such products as denim, underwear, sewing thread and many household furnishings;
- most of Mexico's steep import tariffs on U.S. telecommunications equipment will be eliminated immediately, with the remainder phased out within five years; and U.S. providers of enhanced telecommunications services will finally gain access to Mexico's market;
- Mexico will eliminate licensing schemes on corn, wheat and other U.S. agricultural products—which have meant until now that we sell no more corn and wheat to Mexico than the Mexican Government chooses to allow;
- Mexico's prohibition against U.S. trucking companies carrying cargo to and from Mexico will be eliminated in six years;
- Mexico will eliminate an assortment of requirements that investors in Mexico favor purchase of Mexican goods and services over U.S. or other foreign products.

The list could go on and on of Mexican measures that currently restrict U.S. exports and jobs—but they will be eliminated under the NAFTA. But if we fail to approve the NAFTA, we won't get its benefits. In fact, Mexico would be entitled, based on its commitments in the GATT and other existing international agreements, to increase restrictions against our products.

In 1992, more than 700,000 U.S. workers owed their jobs to our exports to Mexico. With the NAFTA, this number should increase to a figure approaching 900,000 by 1995. We know that U.S. workers in jobs related to exports to Mexico earned 12 percent more per hour than the average American worker.

This agreement will be of particular benefit to small and medium-sized companies that are experiencing the fastest export growth. Unlike big companies, small and mid-sized firms do not have the resources to locate around high trade barriers. With trade barriers removed, U.S. firms will not have to move to Mexico to sell to Mexico.

I have emphasized some of the potential economic benefits to the United States. Rut obviously, economic growth will not only make Mexico a better customer, but a stronger and more stable neighbor. The success of President Salinas' reforms is very much in his country's interest, but it is also, very much, in ours.

While outlining the good that can come from the market-opening provisions of the NAFTA, we also need to face up squarely to the fact that some job displacement will occur in some sectors. That is why an effective worker adjustment assistance program is a core part of the President's program.

During the campaign, President Clinton concluded that while NAFTA carried with it the potential for real benefit to the United States, that potential could be fully realized only if we take additional steps in our domestic legislation and in the supplemental agreements to the NAFTA.

Through the supplemental agreements and through legislation we will develop in cooperation with the Congress, we seek to strengthen the NAFTA in five ways:

1. *Border Cleanup.* We will work with Mexico to address the serious environmental problems at the border. The NAFTA negotiations and associated debate have produced an intense focus on the depth of the problem and an unprecedented degree of cooperation in attacking it. As President Salinas told President Clinton when they met in January, Mexico has dedicated $450 million over three years to invest in environmental projects in Mexican border cities. The joint U.S.-Mexico Border Plan, which was formulated in the period leading up to the NAFTA negotiations, set up a number of working groups and projects—including cooperation on enforcement—to deal with border problems. Plainly, this must be a sustained effort. USTR and the other agencies are studying the various options for funding critical border activities.

2. *Stronger enforcement of national laws.* Mexico has solid legislation on its books to protect the environment and its workers. Mexico's environmental laws, regulations and standards are in many respects similar to those in the United States. Its comprehensive General Ecology law embodies principles similar to ours, and the regulations and technical standards implementing this law take an approach comparable to ours. The Mexican Constitution and subsequent legislation guarantees basic worker rights, such as the right of association and the right to strike, prohibits forced labor, and regulates the working activities of children. Mexico also has detailed laws and regulations governing occupational safety and health.

The issue, of course, is enforcement of the laws, to make the protections on the books a reality for those who live, work, and do business in Mexico. President Salinas has taken significant steps, but much more remains to be done. We are discussing with the Mexican and Canadian governments in the negotiations on these supplemental agreements ways to strengthen the enforcement of national laws. The NAFTA's intellectual property provisions contain strong domestic enforcement principles which we believe can be adapted to assure strong domestic enforcement in the environment and labor areas.

3. *Commissions on environment and labor standards.* President Clinton is committed to the creation of two trinational commissions—one on the environment, and one on worker standards. This is one of the most challenging assignments facing us in the negotiations, but I believe that we can create commissions that break new ground in both these areas, and contribute to enhanced environmental quality and improved worker standards in North America.

We envision the Commissions as a central means to improve enforcement of national laws, as well as a forum for improving standards and cooperation in the environment and labor areas. We are urging that the Commissions have independent, expert staffs with the necessary authority to review and follow up on submissions from the public and non-governmental organizations regarding enforcement issues. In our view they should be able to request information from environmental and labor enforcement agencies in the three countries, and publicize the request and any failure by the governments to comply. Our goal is cooperative improvement in enforcement, and an ample role for sunshine and public advice to achieve that end.

But we also believe there must be consequences if a persistent pattern of serious non-enforcement is not remedied by national authorities.

At the same time, we have to bear in mind that the powers granted to the commissions will apply to us as well as to our neighbors. The challenge is to create bodies which respect national sovereignty while accomplishing things that none of the nations in North America can do alone. From my consultations with the Congress and the private sector, I am acutely conscious of the depth or your concern that these Commissions have the requisite authority to make a real difference, and I expect the supplemental agreements will be judged accordingly.

4. *Worker Adjustment and Retraining.* We believe that NAFTA will create jobs in the United States and contribute significantly to economic growth. At the same time, we recognize that the agreement will undoubtedly cause some loss of jobs. This Administration recognizes that to those who lose their jobs, it is cold comfort to know that others are benefiting from expanded trade. de are committed to helping those who lose their jobs with an effective program of-retraining and assistance. This is a priority of the President, and Secretary Reich is taking the lead in fashioning a comprehensive program to deal 4ith those who lose their jobs, whether the cause is this trade agreement, defense cutbacks, or corporate downsizing. We know that NAFTA will be judged in part by the effectiveness of that program, and it should be.

5. *Import surges.* In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know that there are concerns among some industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. For example, it must be clear that declining employment in an industry is a significant factor in determining when safeguard action under NAFTA can be taken to provide relief from injurious import surges.

At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So we must be attentive that we do not inadvertently create unwarranted obstacles to the growth of our own exports.

Mr. Chairman, let me close by reiterating this Administration's pledge not to ask you to vote on NAFTA until we have concluded our supplemental negotiations and, together with the Congress, developed sound implementing legislation. I am confident that we will earn Congress' support, because this country will be substantially better off with than without the NAFTA, as strengthened by the supplemental agreements and our domestic implementing steps.

The CHAIRMAN. Well, we are both good trial lawyers, and I want to try this case and win it for the United States and Mexico. I think we are totally off on the wrong track, from hard experience that we know in Europe and other places. I have tried. I did not complete the thought on globalized quotas, and I am not interested in developing Communist China or the Pacific Rim, I am interested in developing Mexico.

So, I said that on a globalized basis we can take 10 percent of the textiles from China, 20 percent of the shoes from Korea, 30 percent of the electronics from Taiwan, 40 percent of the hand tools from Japan, and just assign it down to Mexico. Give some debt forgiveness. Those banks have written it off anyway. If I can write off $40 billion for Poland, why can I not write off $40 billion for Mexico?

I want to get them started, Mr. Ambassador, but we really are starting off on the wrong foot.

Now, let me apologize to my colleague, Senator Burns, because he was here and we will be glad to have your opening statement.

OPENING STATEMENT OF SENATOR BURNS

Senator BURNS. Thank you, Mr. Chairman. I will just ask permission to put my written statement in the record. And after listening to the Ambassador's statement this morning—and I appreciate you coming down this morning and visiting, and appreciate your kindness of visiting with us on the other end of this agreement.

We keep talking about everything flowing to and from Mexico when there is another party involved here, and that is our good friends to the north, and we have some problems there that we have to deal with. And I would say that I am going to start being a why guy, I guess, because if I look at my figures in the State of Montana, if we want to be totally parochial about this, then we have to take into consideration that I see my exports to Mexico in the last 5 years from $1 to $10 million, and the figures that you have given us that our growth continues to export to Mexico, I would have to say why are we fiddling with this thing if it is working to our advantage?

And I guess the next question will be, how long will it work to our advantage until we have to start changing things? So, my big problem with NAFTA right now, and I am a free trader, is we have no mechanism right now to bring to some kind of quick resolution of trade disputes that arise out of the agreement.

This is the problem that we have in Canada. Now, I realize that those folks who live in South Carolina do not care about how much wheat is being shipped in the State of Montana, but my Montana farmers are a little bit excited about that. They do not seem to understand that durum wheat is moving into—and Senator Dorgan has brought this point up many, many times. It is flowing into this country because of a subsidized transportation system in Canada.

We have 150 loads of live cattle coming across the Montana line at Sweet Grass a day, and those cattle are subsidized by a tripartite-type system from the province, from the Federal Government of Canada, and we cannot get that resolved.

In other words, we need a mechanism somewhere or other built into this business to resolve those disputes and get them resolved before a lot of damage is done. Right now they just go on, and on, and on.

So, I appreciate making the statement, and I have some other questions. And Mr. Chairman, thank you very much for your courtesy. I will just hand in my statement. But I did, based upon the figures you gave us and based upon the figures in the State, I guess I am going to say why? And then I would hope that we can get some answers.

Thank you very much.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF SENATOR BURNS

Mr. Chairman, I'm glad to be here near the outset of the NAFTA hearings in Congress, a process which should set off some fireworks during the coming months. look forward to hearing the views of my distinguished colleagues and especially the testimony of Ambassador Kantor and the other highly respected witnesses.

Over the last two years we have all heard of the benefits that free trade with our two neighbors will bring, and I think that there is little disagreement that the potential benefits are real. Since 1986, trade with Mexico has increased more than four-fold to over $40 billion in 1992, which translates into about 600,000 lobs which depend on those exports. Also, it's been said that export-related jobs are 17 percent higher paying. Since all accounts indicate that exports will rise dramatically to Mexico, on the largest scale this Agreement should be a good thing for the country.

I also feel that, on balance, it will be a good thing for my home state of Montana. Our exports to Mexico have shot up from 1 million to 10 million dollars' worth in the last five years, and considering how far those exports have to travel that bodes well for our exports after trade restrictions disappear.

Such experts as the Economic Policy Institute do say that as many as 9 percent of Montana's jobs and 7.5 percent of the United States jobs, or 7.5 million, are "vulnerable" to relocation south of the border.I think that on the whole, with American labor five times as productive as Mexican labor, this is probably pretty pessimistic.

But I do have some very serious concerns about this Agreement. Our experience in Montana with the Canada Free Trade Agreement, which went into effect two weeks before I took office, has been that while we've had some gains in exporting to our friends up north, thorny problems have arisen in the agricultural relationship between the two countries.

Our durum wheat market has seen a sharp increase in transport-subsidized Canadian imports, our meat inspectors feel that Canadian beef has toppled in quality, and Canadian pork as well as Canadian 'black' wheat have created problems as well. But more importantly, the CFTA dispute resolution process just hasn't been worth a lick. With so many problems with Canada still up in the air and no way to resolve them in sight, it just seems a little foolish to go and negotiate the same thing with Mexico. Even if NAFTA's effect on jobs and wages and the economy overall is positive, without a way to work out the problems which do arise, be they with Canada or with Mexico, this treaty is pretty ill-advised. I always figure if you're already in a hole you had better quit digging.

We can already see potential problems with Mexican agricultural trade. For example, 58 pesticides banned in the U.S. are still legal in Mexico, including DDT; our farmers will have to compete with products grown with these inexpensive and dangerous treatments. Likewise, the United States' sugar beet market will face a steep phase-out of the current 20 percent tariff protection on sugar products which the Mexicans already produce so cheaply.

These problems will not kill NAFTA outright by any means. But with the tide of popular opinion turning against the Agreement due to labor and environmental forces, I want to make sure that the Administration hears the concerns of the farmers in Montana and the rest of the country. Now is the time to address the problems-we already have, whether it is by negotiating a side agreement with Canada to straighten out the import surge dispute resolution process, or by opposition to the passage of the treaty as it stands until real steps are taken.

Again, I don't want to give the impression that oppose the whole Agreement, because I don't. But legitimate concerns like those of our farm community will not just go away. It is my feeling that the Administration had better take concrete steps to assure the American public that NAFTA is in our country's best interest, and to correct the places where it is not. 'All free trade is good' may be a fine slogan in general, but if it hurts individual sectors unduly, you may find it falling on deaf ears.

Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you very much. I will ask the staff start with me on the 5 minutes, and let us run the clock so that we can get around to everyone.

Mr. Ambassador, you see that particular series of advertisements by the Yucatan, how you can really cut your costs to less than $1 an hour, you can save $15,000 per employee. You wrote me a letter and said that the minister down there said that was not going to run any more after February. This thing ran again. That middle one ran in April. They have been running it for 14 months.

Do you really believe they are going to change their policy of $1 an hour? I am being forthright. I know good and well that I sell my productivity as a southern Governor trying to attract industry. And I talk about the wage level in comparison with Munich, Germany. I am not a bit ashamed about it. I am proud of it. And we are trying to build up into productivity and everything else of that kind. And I have got the highest productivity in the textile industry, for example. Milliken won the Baldridge Award just 2 years ago as the most productive, most competitive. Most people think textiles are some low skill. It is very high skill, there is not any question about that.

But do you really think they are going to get off of that now with the control by the government of $1 an hour wage? Do you think the Mexican Government is really going to bring it up?

Ambassador KANTOR. Let me answer that in two ways. First, let me answer that directly, the advertisement, Senator. Mr. Chairman, we have talked about that. On February 25, the Governor of Yucatan committed themselves to stopping this advertising campaign. Those were placed, as I understand it, prior to that time. As you know, magazines place their advertising before.

That is not in defense, it is by way of explanation. I can only say that President's office in Mexico and the President reacted very quickly as they did when we said we would not continue discussions on the NAFTA unless they ended the government support for investments in an investment fund which was attempting to buy U.S. businesses and move them to Mexico. They stopped that within 24 hours and agreed to withdraw from the fund, which they are in the process of doing.

No. 2, in terms of wage rises, which is really your direct question, the fact is we have had wage rise in Mexico over the last 4 years. They had gone down from about 1983 to 1989, and now they have begun to go up again. What we are trying to do with these supplemental agreements is, frankly, raise the cost of doing business to begin to create some harmonization up in Mexico as we try to increase our exports into Mexico.

Frankly, there is great evidence, as I cited, that the more we lower tariff barriers between Mexico and the United States, and they mostly have been on the other side as the Chair knows, the more we get rid of these pernicious investment restrictions which required certain U.S. businesses, if they were going to operate in Mexico or to actually move there, actually move there, and required them as a condition to export a certain amount of products from Mexico to other markets, those will be ended.

The evidence is that we can grow and will grow export jobs at a very high rate as a result of this agreement with the supplementals. That is the evidence, that is what the studies show. And that is why we believe that the NAFTA with the supplementals is in the best interest not only of the United States, but also in the best interest of North America.

Let me end by saying, and being very direct, this not a zero sum game. There do not have to be winners and losers. We believe there are winners throughout North America in all three countries with the NAFTA and the supplemental agreements.

The CHAIRMAN. I know that is your conclusion, but the fact is that in your own State of California, when you pass an environmental law last year, the entire furniture industry just pulled up and moved across the border.

Now why, in downtown Los Angeles, should I pay someone $7 an hour and have to worry about OSHA, and clean air, and clean water, and plant closing, and parental leave, and health costs, and pension costs when I can go right 200 miles down? And that has what happened and is happening. You lawyers in California have been moving them down there like gangbusters. What is going to stop that?

Ambassador KANTOR. Well, I am not going to defend the legal profession in California. I have left that. [Laughter.]

I would just say there are four things that I would look at. Productivity, jobs, infrastructure, and markets. And all four give us a tremendous advantage in terms of this agreement and in terms of our place here in North America, as well as dealing in other nations.

I have great faith in the most competitive workers in the world now. The U.S. workers are now the most productive. We are the lowest cost manufacturing producers now in the world, and the fact is that we are beginning to do better and better when markets are open, when we are allowed to expand trade, when we can insist on measurable success.

And that is, I know, not a direct subject of this hearing but that is what we have got to insist upon, Mr. Chairman. It is not just macroeconomics, because I think you and I agree. We have got to insist on measurable success. We have got to insist upon open markets. We have got to insist on comparability. And I think that is what this agreement brings.

The CHAIRMAN. But you catch the United States at a time when we need enterprise zones. The President and your administration have just announced $4 billion and 110 sites for the need of enterprise zones, on the one hand, to get investment and jobs and development of a middle class in inner city America. And then you come around as fast as you can and make Mexico one grand 85 to 89 million populated enterprise zone.

Down there in Mexico you can get way better than what Henry Cisneros is going to give you. I can tell you that right now. I mean, you think they are going to take advantage of the enterprise zone in downtown Los Angeles or in down under Mexico?

Ambassador KANTOR. Mr. Chairman, capital, production, and management are mobile. The only not mobile is labor. People are not mobile. Americans cannot move to Mexico and become employees and they are not going to, but business can.

If you want to create a huge enterprise zone, let the NAFTA with supplemental agreements fail and we will create the largest enterprise zone not in our interest in the world in Mexico.

What is happening now is not going to stop just because the NAFTA fails. What has been happening in terms of jobs going to Mexico is we have no leverage, we have no reason to insist on wages being raised by the advent of new requirements in worker standards, safety, and the environment. Therefore, without the NAFTA and the supplemental agreements, we are worse off than we are today.

The CHAIRMAN. Thank you. Senator Packwood.

Senator PACKWOOD. Mr. Chairman, I am constantly fascinated not by the hypocrisy but by the ambivalence of the United States. The State of South Carolina goes to Hoffman-LaRoche and says, "please come invest in our State. Here are the advantages." That is OK. The Mexicans say—State of Yucatan says, "please invest in our State." That is not OK. For years we have——

The CHAIRMAN. I did not say it was not OK. I am just recognizing it. I think it is fine. In fact, the reporter called me up and wanted me to say I was shocked by that. I am not a bit shocked.

That is what we have been doing. Every Governor of the United States worth his salt has been doing exactly what they are doing down in the Yucatan.

Senator PACKWOOD. I know. Every Governor goes over to Japan and goes over to China and says, "please invest in our State," and then we say, "why do we let those damned foreigners invest and buy up things in the United States?"

The CHAIRMAN. Have you got any Mexicans investing in the United States? Get the FBI to find them. [Laughter.]

Senator PACKWOOD. As a matter of fact, come with me, Mr. Chairman to company after company. I will take you to Sabrosa in Medford, OR. It makes baby food, as a matter of fact, the basic products for the principal baby food manufactured in the United States, the fruit base.

It is selling products all over the world, and labeling in the language of the country where they are selling. They have got Portuguese language on products they are selling in Brazil—60 percent of their gross sales are overseas. They are getting into markets.

They cannot wait for the NAFTA to pass, and they hope you bring in all of South America. They can do what they are doing better than any company can do in South America or is going to do, and they have no intention of moving. They are in Medford, OR, which is 300 miles south of Portland and about 400 miles north of San Francisco in an area of perhaps 90,000 to 100,000, and they are doing sensationally.

But I want to ask you—I just want you to emphasize this answer, Mr. Ambassador—how on earth does it benefit the United States if this agreement fails? Does it make our wages any higher or lower? Does it make Mexico's environmental standards any better or worse? Does it change any of the tariff laws that now exist that are disproportionately unfavorable to the United States?

If this agreement fails, how on earth do we benefit? Forget Mexico. How do we benefit if this agreement fails?

Ambassador KANTOR. We do not. I am deeply concerned about American jobs and American business. That is what I am paid to do, and that is what I am sworn to uphold, and working for this President and also this Congress. You are my clients as well.

It is estimated that 900,000 jobs by the end of 1995 related to exports in the United States would fall to 500,000 jobs. We will lose 400,000 jobs if in fact the NAFTA and the supplemental agreements were not enacted or ratified by this Congress and the Canadians and the Mexicans as well. I would suggest to the Senator and the committee those 400,000 we can ill afford to lose.

That is not even to estimate what would happen in terms of new agreements which might be reached between the Mexican Government and other parties, the adverse effect on the political situation in Mexico, which I think was cited earlier, and also the adverse effect upon the growing market economies and democracies in South America who are looking to the NAFTA, as you know, as something they would like to dock with economically in order to grow the largest free trade area in the world.

This agreement with supplementals is important, critical, helpful, in favor of workers and businesses of the United States, and that is what I am concerned about.

Senator PACKWOOD. You know, opponents of this agreement must simply talk to different industries than I do. I will cite another one—Key Technologies.

It has got a divided workforce between Milton Freewater, OR, and Walla Walla, WA, Milton Freewater being close to the border. In fact, the towns are not 15 miles apart, and they are closer to Idaho, actually. They are in the eastern part of the State.

They make agricultural processing equipment that is so highly technical I am fascinated with what they do. On one occasion I watched their machine, which sorts out potatoes that are already sliced up to be used for french fries.

They have not been made into french fries yet, but they have been sliced and they are on a long conveyor belt that has little grooves in it, and as this conveyor belt moves at a relatively rapid pace, they go under a scanner and they are looking for black spots—the scanner is looking for black spots.

At the end of the conveyor belt the string potatoes have to leap about a foot of air and the belt is propelling them fast enough that it will leap the foot, but if this scanner catches any of the black spots it sets off an air blower that blows the french fry, or blows the potato down into a box, and all the ones with the black spots get knocked out.

Those are then run through another belt, where a machine scans them and controls knives that cut out the black spots, and then those are used and the black spots are sold to Japan for cattle feed.

This company, it already has about 40 percent of its sales overseas, it sells all over the world, and it cannot wait for this. It has no intention of moving any place.

It is manufacturing in an area, counting the two towns, that collectively does not have 35,000 people, 300 miles from any serious transportation center. Can they compete? You bet they can compete. Do they think they have a big market in Mexico for these kind of machines? You bet they think there is a big market in Mexico for these kind of machines.

I was at the fair about a year ago now, where they were demonstrating another new machine on their conveyor belt that has berries that have been picked going across it, and the scanner operates in relation with a photosensing device of some kind that is so sensitive it can differentiate very slight changes of color in the berries and, of course, the best-looking ones sell best, and then somehow separate the ones that are not quite the right color.

None of this is hand labor. It is all money. It is capital. This is expensive equipment. They are convinced they can sell these machines all over the world. I come back again, somebody must be talking to different companies than I am talking with, and these are—I do not want to say remote sections of Oregon, but they are not in Portland, and they are not on a major airline route, and they are not on major rail routes, and they are competing.

I am going to have to apologize, Mr. Chairman. I am the ranking member on Finance and the administration has five nominees before the Finance Committee today, and I have got to go and at least pay my respects and ask a few questions.

Mr. Ambassador, good luck.

Ambassador KANTOR. Thank you very much, Senator. I appreciate it.

The CHAIRMAN. Thank you, Senator. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much.

I have listened to this discussion, and the reason I said it seems sometimes almost thoughtless to me, the American people, who are concerned about this, are treated as people who basically do not understand the larger picture, and those who sell this kind of an agreement seem to me to be continually building work castles in the air.

Let me ask you about the specifics. I mean, people ultimately will live with the specifics. I mentioned beans. Let me just ask you, Mr. Ambassador, whomever traded on our side of the table in the give and take of this trade agreement decided it was appropriate if you were a bean raiser or bean grower to negotiate an agreement in which for the last 5 years our average was 62,000 metric tons a year of American beans going to Mexico. They established a new quota in the agreement of 50,000 metric tons, and anything over that will have a tariff of 138 percent. By what justification would someone support that provision in this treaty?

Ambassador KANTOR. Well, they are going to be in any treaty. As you know, we did not negotiate this treaty, as the Senator understands. If you are going to ask me to support and defend each and every part of this in order to say it is in the best interest of the United States, you are not going to get me to say that, nor do you think I would. Mrs. Kantor did not raise any dumb children.

On the other hand, taken as a whole, given the evidence that we have, let me just answer a question I think that at least was—and again, it is relevant, rhetorically raised by Senator Burns. In 30 States—in 30 States, Mexico is one of the top 10 export countries. In 28 States, $250 million more a year or more are going to exports from those States into Mexico.

Since 1986, there has been an explosion of exports in New Mexico as a result of their lowering their tariff barriers and getting rid of these pernicious or some of these pernicious investment rules that they have. It has helped agriculture, it has helped manufacturing, and it has helped services. Frankly, as you know, in the area of corn and other areas we are going to do very, very well.

Senator DORGAN. Well, I asked about beans, and I was asking about a specific—I could have asked about potatoes, I could have asked about sugar, and will ask about why one did not correct the Canadian problem, a very serious problem, when the Canadians were a party to this at the table?

Ambassador KANTOR. As you know, there was a separate agreement between Canada and Mexico, and one between the United States and Mexico. I think that was unfortunate, but we are not going to reopen this agreement. We do not think that is overall in the best interest of the United States to do so.

Senator DORGAN. In my judgment, it was not reopened. It will not be implemented by the implementing legislation through Congress.

Let me just ask again. Let me understand, your point is you are not going to be defending specific provisions, and I understand on the bean provision I do not expect it can be defended, and I understand that things are traded back and forth.

My point, and I think the point Senator Burns made is, it seems to me every time somebody sits down to trade it is people that have never set foot on a farm, and they are perfectly willing to trade off agricultural chips in order to get something for some other sector in the economy.

We got traded off in the Canadian agreement in a very serious way, and it has never been rectified, and it appears to me we have gotten traded off in the NAFTA agreement in a very serious way.

Let me go on, though, to one other point. It seems to me the premise here is we should grow Mexico. What percent of the new investment in this grow Mexico policy will come from the United States, in your judgment?

Ambassador KANTOR. I am not sure I follow your question.

Senator DORGAN. Well, as I understand it, about two-thirds of current new investment in Mexico is United States sourced. If the policy is to invest in Mexico to grow Mexico, will it be about two-thirds of the new investment coming from the United States?

Ambassador KANTOR. You mean from outside of Mexico?

Senator DORGAN. Right.

Ambassador KANTOR. I would think that percentage would stay just about the same.

Senator DORGAN. And the question I would raise——

Ambassador KANTOR. There is no reason to believe the situation will change. What will change is, we will have more exports going into Mexico in all three sectors that I mentioned—services, manufacturing, and agriculture.

Senator DORGAN. One of the most significant problems facing this country is an investment deficit, and if we do things to accelerate U.S. investment in Mexico in order to grow Mexico and to become a future better market for this country, are we not ignoring the investment deficit needs in this country?

Ambassador KANTOR. In fact, we do not have an investment deficit in trade, we have an investment surplus, and we have a services trade surplus, so the fact is—and in fact, if we can do something about the structural deficit and pass the President's program in terms of infrastructure and the President's program in terms of certain investment for this economy, we are going to grow the capital base of our economy, and we are going to do much better.

Senator DORGAN. You know, what the chairman said a while ago I feel very strongly about. I think that there is a way to link Canada, the United States, and Mexico as a hemisphere group with which to compete against the Pacific Rim or the EC.

I further think that the previous administration went down and negotiated a treaty with Mexico that does not enhance a trading bloc developed in this hemisphere. What it does is establish competition for jobs between the United States and Mexico, and I believe the establishment of competition for jobs between us and them makes us the losers.

My sense is that we would all do ourselves a favor if we could help us, Canada, and Mexico, by developing a stronger hemispheric bloc with which to compete against other trading blocs that have developed in the world, and I frankly do not think this trade agreement does that.

Ambassador KANTOR. Well, in fact, as you know, the content rules in this are much stronger than in the FTA with Canada. The FTA is an agreement, a free trade agreement with Canada we have done very well with economically. It has gone from 50 percent. It will go to 62½ percent in this agreement.

It will require, in fact, products that are sold in this hemisphere to have that kind of local content. It will create the largest free trade zone in the world, and will in fact be tremendously helpful not only to the United States but to Mexico and Canada, and so I think that addresses your issue, Senator.

Senator DORGAN. Well, again, despite my questions, let me say you are the first breath of fresh air we have had in the USTR for a long, long while. With respect to the Canadian issue, Senator Burns understands, we could not even get them to acknowledge that there was a problem. I mean, for years, the issue was do not bother us, you are a nuisance. They did not pay any attention to us at all.

So, despite our disagreement about the details of this treaty, I do want to say that I think the tone and the approach in which you say we demand fair trade agreements, we demand basic fairness, and your attention to the Canadian issue, is a welcome sight.

Ambassador KANTOR. Senator, durum wheat is always on my mind. [Laughter.]

Let me just say that I just received a letter from Trade Minister Wilson and there is at least some helpful language. We are going to go at that hammer and tong. We are going to do something about that wheat problem, or I am going to be even shorter and more gray haired than I am today.

Senator DORGAN. I will send you a little macaroni every day lest you forget this issue. [Laughter.]

Ambassador KANTOR. Senator, you and your colleagues, including Senator Burns, will never let me forget this issue. [Laughter.]

The CHAIRMAN. Thank you. Senator Exon.

Senator EXON. Mr. Ambassador, thank you for being here, and I welcome you. I think you are right. There are some questions I have on my mind, and the first I would like to say that there are too many people today that think that free trade automatically is fair trade.

You recognize the difference between free trade and fair trade, I am sure. What can you do to assure us that we do not get these things too mixed up all the time? It all comes back as to what—in regard to agricultural subsidies what the Canadians think is free and fair trade, but it is not free and fair trade with regard to wheat as far as we are concerned.

How do we differentiate between that, and do you think that the side agreements that you are trying to negotiate can legitimately solve those differences?

Ambassador KANTOR. They will address them. Let me go back to your first question, Senator, which I think is not only a fair one but a good one. We believe in mutuality of obligation and comparability of action. That means we believe that what we do, or our actions ought to be comparable to and our trading partner's actions comparable to our actions, that we need to open markets and to expand trade.

I believe that lexicon that is prominent in this town more than any other place I have ever seen of free trade and protectionism and managed trade and results oriented has no bearing in the new world, no bearing in a post Cold War world where trade has become so critical to all of us.

We are going to become increasingly globalized. What we need to look for is results, measurable success, and I think that results is what we are going to get out of this treaty with the supplemental agreements. These agreements on labor standards, on the environment, on safeguards against surges, on reforms of the Mexican court system, and so on, will begin to harmonize up standards in North America, especially in Mexico, that will make our companies and our workers, which I am concerned about, more competitive, and that is exactly what we are trying to accomplish.

Senator EXON. Mr. Ambassador, let me throw some cold water onto this euphoria that we keep hearing about, about oh, well, we are so high in productivity that there really is not any concern about jobs flying from the United States into Mexico.

I suggest that with the new taxation policies that we are considering enacting here, where we are talking about maybe doubling the withholding taxes for health care cost and other things, that, coupled with all of the other concerns that have been already expressed around this table this morning it seems to me is an open invitation for more flight of jobs, and I think that is being played down.

Earlier, the chairman referenced this matter, this ad that appeared in World Trade, "Yes You Can in Yucatan." I think the Yucatan is making a pretty good pitch here. What I am saying is that we are, I think, trying to demonstrate at this time that we are not going to have a flight of jobs into Mexico because we are productive.

If I were a manager, and you start taxing me additionally for payroll withholding taxes to take care of what we think are necessary social needs and problems in the United States which are not addressed in Mexico, it seems to me that is just one possibility that they are going to flee.

Could you comment on the maquiladora process, which as you know is kind of a preview supposedly of what would happen with the plants located just across the border from the United States? The performance of these plants, frankly, do not give me a lot of confidence in the future of the NAFTA process, where jobs might be lost. How would NAFTA be different than our experiences with the maquiladora plan?

Ambassador KANTOR. Senator, that is not only a fair question, but I think it emphasizes the point that I have been trying to make. The maquiladora region is in essence a preferential trade zone. It was created for that purpose. What the NAFTA does is get rid of those preferences. What the NAFTA does is not only lower the tariff barriers and get rid of what I consider pernicious investment rules in Mexico in order to allow us to be even more successful in exporting into that incredibly fast-growing consumer market.

As I cited before, consumer good purchases by Mexicans—Mexican people from the U.S. exporters is growing at a more rapid rate than any other area, but what it does also is get rid of the preferential treatment for the maquiladora region. That being the case, I believe we help the situation and not exacerbate it, and that is what we are trying to do.

I firmly believe, and this President firmly believes, as he has since his speech in North Carolina on October 4, 1992, that the NAFTA with the supplemental agreements will make the situation substantially better for American jobs, American workers, and American business, than it is today, and that is what we are trying to accomplish.

Senator EXON. Have you taken into consideration, Mr. Ambassador, the rather staggering increase that we seem to be going toward with regard to withholding taxes for plants operating in the United States that would not be the case with American factories located south of the border? Is that not another potential problem for encouraging the location of American plants just across the border?

Ambassador KANTOR. Senator, with all due respect, if you take the President's economic package as a whole, if we can hold down health care cost and their tremendous rise, which has hurt us economically and really hurt our competitive abilities, if we do something about the structural deficit, which this President is taking head on, I think to his credit has taken head on, if we have a real investment in this economy not only in our businesses but in infrastructure, and if we educate our people in the way we should with apprenticeship programs and national service and other areas that the President is trying to address, we will directly address the problem we are talking about. We will be more competitive.

Competitiveness is only one part of the problem. We also then have to create and open the markets on a comparable basis the Chair was talking about in order to take advantage of this new competitive ability of American workers.

Senator EXON. Thank you, Mr. Ambassador. It is a good statement. I hope it works out.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Thank you, Mr. Chairman.

I wanted in my time to have the time to ask you two questions in two areas. So, I am not going to belabor the first very long, except the issue has been raised with respect to agriculture, and whether this is a good deal or a bad deal from the standpoint of agriculture.

At present, 25 percent of U.S. agricultural exports to Mexico are subject to import licensing restrictions by the Mexicans. Those restrictions would be lifted immediately on the effective date of NAFTA. That would seem to me to be a very good thing for American agriculture. With respect to corn, the NAFTA would guarantee the United States immediate duty-free access for 2.5 million metric tons of corn annually. All restrictions would be phased out over 15 years. That would seem to be a good deal for the corn growers.

With respect to wheat, the U.S. Department of Agriculture estimates that NAFTA will lead to a 40-percent increase in U.S. exports of wheat to Mexico. That would seem to me to be a good deal for American agriculture.

Oil seeds: Mexico has seasonal tariffs on soybeans of 15 percent. Those would be reduced to zero in a 10-year phaseout.

Dairy: USDA estimates that under NAFTA, U.S. dairy exports to Mexico will increase by $36 million.

All of these would indicate to me that agriculture is a significant beneficiary of NAFTA. Would you agree with that conclusion?

Ambassador KANTOR. Absolutely. I do not think it is debatable. There are areas of concern which we are addressing, whether it be some areas of fruits and vegetables, or in the area of sugar, or some other areas like the bean situation raised by Senator Dorgan.

But more than in general, specifically, agriculture is a major winner in this agreement, if and when it goes into effect.

Senator DANFORTH. Thank you.

Now, I would like to talk to you about the side agreement issue, which you mentioned. The way you put it, I was relieved, I think, to hear what you said about the side agreements. But the group of environmental organizations that came out with their proposal for what was called a North American Commission on the Environment, or NACE, their proposal would be headed by the three NAFTA environmental ministers.

It would be staffed by a permanent secretariat, headed by a secretary general with independent power to prepare reports and conduct investigations. It would have the power to conduct investigations on its own initiative, or in response to citizen petitions. Therefore, environmental groups would have a whole new forum to litigate environmental issues.

Well, let me just stop there and ask you—oh, and it would have the power to impose sanctions, as I understand it, to enforce panel rulings—sanctions being limitations on imports into whatever country is making the complaint. It would provide for a secure source of funding, which, to me, means the possibility of tariffs to fund this operation. It sounds to me as though it is a total disaster if this were to become a side agreement.

Can you relieve my fears about the proposal of these seven environmental groups?

Ambassador KANTOR. I will try, Senator. Sometimes I feel like a tightrope walker at the circus with a balancing pole, desperately trying to get to the other side. I was tempted to say between all the opening statements, I agree with everyone, and then go back downtown somewhere. [Laughter.]

Let me just say, what we are trying to accomplish here is obvious, and I do not think the Senator disagrees with it. We are trying to accomplish the proper enforcement of national laws. There are a number of principles we want to adhere in doing that. We do not in any way want to invade sovereignty. What is sauce for the goose is sauce for the gander. And we would not want our sovereignty invaded, and we certainly do not want to invade the sovereignty of either Canada or Mexico. That is No. 1.

No. 2, we do not want to exercise supernational powers. But within that broad rubric, I think there is a lot of room to put together a commission on the environment and labor standards, because they will operate on similar rules, if not exactly the same rules, with a secretariat.

When they say secretariat, we are talking about a very small number of people who can review problems which can come to their attention, either through their own resources or others, ask for information from the country in question—and it can be any one of the three countries—review the information, hold open hearings, have a transparent process. And then, when they come to a conclusion, ask the country in question, of course, to try to address the problem.

This is the problem of enforcement of national laws which would affect the problem in that particular country.

However, in cases of, let us say, serious patterns of persistent problems, and a country fails to address the issue they have been asked to address by the panel in question, we believe it is not only helpful but absolutely necessary then that there will be an enforcement provision at the end of this process.

As you know, we already have an enforcement provision in the NAFTA itself for trade-related problems. There is nothing either ideologically, philosophically or factually that is a problem in my view and in the President's view—in fact, we think it helps the NAFTA—to have the right then to address these issues by sending this problem to a panel which would have enforcement powers similar to or exactly like what we have already agreed to under the NAFTA itself.

We believe that harmonize up standards in North America. We believe it will begin to close the gap between the cost of doing business in the two countries. We believe it will help the environment and labor standards. And we think it makes this agreement a much stronger agreement, No. 1, substantively; and, frankly, makes it a much stronger agreement politically.

Senator DANFORTH. Mr. Ambassador, if that is the direction in which you are heading, let me just say that in my judgment, that is a very, very dangerous approach, and a very serious mistake. You have 27 Republican Senators who want to go on for this ride, and I think that would push us off of it. That would be a disastrous principle, as far as this Senator is concerned, and I would think as far as a lot of Senators are concerned.

Senator KERRY. Mr. Chairman, just for the sake of the record here and the process, I think it would be helpful to understand a little more—give some definition to the disaster.

The CHAIRMAN. Well, let us move on, because there is going to be a disaster if they pass this thing. I feel just as strongly. [Laughter.]

Senator Gregg, go ahead.

Senator GREGG. Well, maybe you could respond to Senator Danforth's point, because, as I count the votes for the President, it is the Republican for him and the Democrats undecided or maybe against him. So, those of us who want to help the President and be supportive of the President would like to maybe have some clarification of the points which Senator Danforth has raised and his concerns.

Ambassador KANTOR. Let me take it one step further. We believe that in fact the advent of these commissions, operating within the confines of what we have already agreed to, frankly, Senator Gregg and Senator Danforth, already agreed to in the NAFTA itself, in terms of how we enforce this agreement in the main, would be helpful to U.S. jobs and business, not harmful. In fact, just the opposite. If we harmonize up standards in North America, it only makes this agreement stronger and will help U.S. exports, grow U.S. jobs, and help U.S. businesses.

Frankly, we may disagree on that issue, but taken as a whole, there will be parts of this agreement I am sure that Senator Kerry or the Chair may disagree with. He may disagree with a lot that is in this agreement. But there is an awful lot in this agreement that is going to mean a better situation with Mexico and North America for U.S. jobs and U.S. businesses now—I mean, in the future—than there is now.

That is really the key question. The question is not whether or not it is perfect. Perfect is the enemy of good. The question is can we make it better. And I believe we can. And that is what we are trying to accomplish.

Senator GREGG. Well, I guess by making it better, are you making it better politically or are you making it better substantively?

Ambassador KANTOR. Both.

Senator GREGG. Well, I suppose it only becomes better politically if you get the votes, right?

Ambassador KANTOR. It only becomes better substantively if we get the votes, as well, Senator. Let me suggest that without the votes, it does not go into effect, and not going into effect, we are going to lose a lot of jobs in this country.

Senator GREGG. Well, I agree 100 percent with that. And I guess my concern is that by putting so many eggs into this new basket that you have created, you really may be changing the dynamics of the process from what was originally intended. And you are probably putting at risk a lot of votes that are there right now.

Ambassador KANTOR. Well, let me suggest the President committed himself on October 4, 1992, a fairly long time ago—in political lexicon, that is a century ago—to this process. We have not deviated, as you know, Senator, one iota from that speech in North Carolina. We do not intend to. We believe it is in the best interest of American jobs and business, or we would not be going in this direction.

We think—substantively, for a moment, not addressing the politics of it—it makes great sense. We think that this agreement, with the supplemental agreements, will do exactly what you and Senator Danforth and others who support this agreement want it to do, and that is really grow U.S. jobs.

Senator GREGG. Well, I do not want to spend my whole time on this, but I would like to suggest that maybe you could sit down with Senator Danforth and a few folks who have signed this letter of support for the President and see if we cannot put some level into this rather significant cross in the road.

Ambassador KANTOR. I would be happy to.

Obviously, we have talked a lot about not only this issue, but many trade issues, and I would be happy to sit down with anyone, frankly, to go over this. This has not obviously been negotiated yet.

We are in the middle of these discussions, and I would be delighted to take advantage, frankly, of that opportunity.

Senator GREGG. I will yield the rest of my time, Mr. Chairman.

The CHAIRMAN. Very good. Senator Lott.

Senator LOTT. Thank you, Mr. Chairman.

Mr. Ambassador, I suspect my opening statement was the only one you totally agreed with. If you recall, I was the only one who said I have nothing to say at this point. I want to hear what the witness has to say.

We appreciate you being here today. Let me ask I guess some process questions first of all. What is the timetable, as you envision it now, for getting conclusion to the supplementals?

Ambassador KANTOR. It appears—and I will be a little careful—but it appears, given the schedule that we are on, we will be able to finish these negotiations by midsummer. We can finnish the construction of the implementation legislation soon after that, and be able to bring the complete package to the Congress either right before the recess or right after the recess.

Senator LOTT. In other words, late July or early September as you envision it now?

Ambassador KANTOR. Yes. But no later than that.

Senator LOTT. I was not one of the 27 Republicans that signed the letter. I am trying to honestly listen to all of the debate. I am inclined to be for it, but I want to know exactly what the impact is going to be. I want to know what the impact is going to be for our country, and I want to know what the impact is going to be on my own State and various sectors that would be affected, positively or adversely. And I want to know what the supplementals are going to be before I am going to sign on in advance to that final product.

We have been focusing here in the last few minutes on the environmental supplemental activity and what that might mean. But there are others that are being worked on too. How many? I mean, what are the main areas? I know of environment and labor.

Ambassador KANTOR. There are really five main areas or five areas. One is the commissions we have talked about. The other four involve, first of all, border cleanup. As you know, we have a problem in those maquiladora regions, and they affect U.S. citizens as well as Mexican citizens. We need to deal with that problem.

Second, to use as a model the intellectual property rights reforms of the Mexican courts and apply them to labor standards, worker safety, to the environment in order that Mexican courts be more independent and more open, more accessible to those kinds of issues.

Now, not every one of those standards that the Mexican Government has already agreed to with regard to intellectual property rights will apply in these cases, but the model is certainly something that we have agreed to talk about and work with both the Canadian and Mexican Governments on in these negotiations.

Next would be to improve and to strengthen the safeguard against surges, which would involve both an early warning system and also to make sure we emphasize the fact that dislocations of employment would constitute a safeguard—would be part of the criteria of safeguards against surges, and would trigger snapbacks or other items that we might use in that connection.

Last, but not least, is to promote—to promote, and I use that word carefully—the tying of wages to productivity in order that we can have harmonizing up of wages throughout North America, especially in Mexico.

Senator LOTT. With regard to the cleanup along the——

Ambassador KANTOR. I am sorry, let me just get to the sixth. The other, of course, is worker adjustment assistance. We will not come to the Congress—that is something we need to do on our own—and have a relevant worker adjustment assistance program.

Let me indicate, we are working on a study and white paper, Mr. Chairman and Senator Lott, members of the committee, that will indicate that job losses as a result of this agreement and dislocations will be much smaller than was originally estimated.

Senator LOTT. But you do not intend for that to be a part of this?

Ambassador KANTOR. No, it is not a part of this. But the administration, when we bring the package to the Congress, will have a worker adjustment program connected to this agreement or the trade agreements, in order that Congress can at least see that we are taking care or at least addressing that problem.

Senator LOTT. With regard to the cleanup along the border there, you are talking about cleanup on both sides, I take it, obviously? And it does not include any investment on our part to cleanup on their side of the border, would it?

Ambassador KANTOR. They have already committed $450 million to the process. We are going to have to find, frankly, some creative ways of financing what is going to be a fairly expensive cleanup operation.

Senator LOTT. On their side of the border?

Ambassador KANTOR. On both sides of the border.

That means all three—at least in this connection—two countries would have to be involved. But let me be frank to say we need to find creative solutions to this problem. While we try to deal on one end with the structural deficits, the last thing we want to do is to put some whole new major burden on the U.S. budget in order to engage in this question.

I am very sensitive to that. We are trying to work together. This is one area where all three countries agree that we have an interest in finding a creative solution to this problem without busting the budget, frankly.

Senator LOTT. Well, I am always interested in creative solutions, but I do not think my constituency is going to warm up too much to their having to make a contribution through more taxes to cleanup environmental problems in Mexico or to build up their infrastructure either. I think I keep hearing this chatter around. I just do not think there is going to be a lot of excitement about making a contribution to their infrastructure problems. I mean, they are going to have to do that over a period of time.

I also do get a little concerned about the argument I hear every now and then that because we tax too much and we regulate our business and industry too much, we should not have this agreement. Because, you know, business and industry will pick up and leave. That would seem like a pretty poor reason, in my opinion, to be against it. I do not think we ought to get in the position where, because we have such a dysfunctional regulatory regime in this country that we not be for this treaty.

I mean, just because we pass a bunch of laws that make it difficult—tax laws, regulatory laws, all this myriad of stuff we dump on business and industry in America, that we then should not take advantage of an opportunity to encourage trade.

So, whatever argument you have got, you know, that is the one that has the least appeal to this member. And I hope that my colleagues will find a better argument than that one. And I know you have got a tough job. I know it is a tightrope, and I am probably—you know, I want to watch what you do, and I want to be helpful. I want to find a way to be for it, but I am going to witness your advent and judge your sincerity with the final product.

Ambassador KANTOR. I hope neither is wanting, Senator.

The CHAIRMAN. Very good.

Senator Burns.

Senator BURNS. Thank you, Mr. Chairman.

I just have one question I want to pursue, because we have kind of kicked around the agricultural end of it. I would agree with the figures and with the sections in this agreement with regards to agricultural trade. On the balance there, agriculture is a winner. But it is just like you said, we have to work out some problems with the sugar, and I think, hopefully, we can do that.

But I want to go into another area. You said a while ago that you are walking that tightwire. I have a feeling that you are trying to walk the tightwire with no wire at times. And that becomes even more difficult.

But I want just to raise a possibility of an infrastructure that we are trying to sort of accelerate the development of in this country because we happen to believe that it is going to be the most integral part of our infrastructure for the future growth. And it was not dealt with in this agreement. Under the treaty as currently written, basic telecommunication services will be exempted from trade liberalization with the two countries.

I would ask what further steps will be necessary to open up this important market to U.S. technology and, of course, the service providers that not only are in that industry but will be a user of this? Because I happen to believe that we are going to move a lot of information and information services between the two countries, and I think it is going to be probably the linchpin of the infrastructure in which to make all of this work.

Ambassador KANTOR. Senator the NAFTA telecommunications agreement for services and tariff reduction addresses nearly all of the practical problems of U.S. users, services providers, and equipment exporters in doing business with or in Mexico. The agreement makes it possible for U.S. companies to extend their full company communication networks into Mexico and to obtain or provide the full range of modern information services in telecommunications equipment.

It also liberalizes the regulatory environment in Mexico along the lines of that in the United States and Canada for enhanced services and private intracorporate communication systems. While the agreement is a status quo, frankly, for our country, Mexico has undertaken major reform to move closer to this, frankly, level of liberalization.

It also eliminates all tariffs, all tariffs, on exports to Mexico of telecommunications equipment, most of them immediately, and the remainder with 5 years. And that significantly expands U.S. export opportunities.

I mention again, that is about a $6 billion market. Now, we are not going to get all of it, but it is a major potential market.

Canada and Mexico have already become, together with Japan, our leading telecommunications equipment export markets. We would like to open that telecommunications market in Europe, frankly, and we are trying to do that, as you know.

The agreement reflects the commitment of the three governments to many of the principles that have made our competitive U.S. telecommunication industry the best in the world. And I think in this area it is a strong agreement and one in which we can be very proud.

Senator BURNS. I agree with what you said. I guess the part that is the system itself in Mexico is still government-owned and government-operated. Is that not correct? Have I got bad information there?

Ambassador KANTOR. Well, in fact, Southwestern Bell is now a major investor in Telemex, if I am not mistaken. If the staff wants to correct me. Is that correct?

So, they have begun to profitize that system.

Senator BURNS. That area right there which I think is—we have to be very careful on because I just happen to believe that there is going to be great movement in this area. And we are trying to accelerate.

I just happen to believe that the remote areas—it is the key where remote areas of this country and would be a vital part of what Senator Packwood is saying about his firms at Milton/Freewater and around Walla Walla, WA—I guess that is the way the natives would say it. In order to compete on an international market, that happens to be a very vital part, because you are outside of the transportation center. And we have already kicked around this other enough that I think, as this moves along, I am like Senator Lott and I am like Senator Dorgan.

I have barriers when it comes to trade. I think we have to take in consideration, Mr. Ambassador, and I think you grasped this very well, that through technologies and the invention, maybe three inventions, that has happened in the world, that has taken this world comparatively from the size of this building we sit in now, at the turn of the century, to the size of a golf ball it is today. And that is the jet engine, the transistor, and of course, the silicon chip.

And we all are interrelated around the world. Nothing can happen that—we are interrelated. And so I appreciate this. But again, I would go back to say if right now if had an advantage, it is awfully easy to say why do we mess around with it, fiddle around with it and agree to disadvantage some people, to advantage others. And we hope we would kind of get around that.

So, I know I will have more questions as you go along, but I appreciate your position. I know it is a very difficult one.

Ambassador KANTOR. Thank you, Senator. Let me say, the reason it has gotten so much better is because what has happened in Mexico is paralleled to what will happen in the more pronounced fashion under the NAFTA; the liberalization of tariff rules and getting rid of these pernicious investment rules.

So, therefore, the past in this case, I think, is prolog. In fact, the evidence is that the agreement, the NAFTA with the supplementals, will make it even better.

Let me say in answer, I cannot walk on air and I cannot walk on water either, but I feel like every day this wire that I am on gets thicker and more solid.

Senator BURNS. Tell me about their attitude on the investment and energy development? Are you satisfied with the arrangement that is made in the original NAFTA agreement?

Ambassador KANTOR. Yes, Senator. I think it liberalizes what has been done. I think it is very helpful to US companies.

Senator BURNS. I thank you and I thank the chairman.

The CHAIRMAN. Very good. Senator Kerry.

Senator KERRY. Thank you very much, Mr. Chairman. After listening to this, I sort of have a feeling that we ought to be more grateful to you for taking this job.

Ambassador KANTOR. It is OK if you send a note to the President telling him that. [Laughter.]

Senator KERRY. He is going to get a lot of notes from this committee at this rate. [Laughter.]

I am sorry the Senator from Missouri is not here right now, Senator Danforth. I really think it is awfully important for us to keep the dialog moving, and I know he is one who appreciates dialog and I am sure we can.

But the environmental picture here really cannot be trivialized and cannot be cast aside. And I think those who are watching what is happening in trade increasingly are recognizing that more and more the environment is going to become or must become an essential ingredient of any trade agreement.

It is very clear that if the concepts that have been bantering around about sustainable development and resource depletion and the problems we have internationally are going to conceivably be addressed, it is only in the context of trade agreements that take into account some of those problems and have a mechanism for the resolution of them.

We took steps a few years in the Marine Mammal Protection Act to protect dolphins in tuna catch. And it was found by GATT to be a protective measure and therefore null and void. And so our environmental standard was lessened by virtue of the international community's attitude on trade.

Here you cannot ask American workers to pay for cleanup in this country to live up to the standards of the Clean Air Act, the Safe Water Drinking Act, the Clean Water Act, and so forth and then have a free trade agreement where we are encouraging companies to go where they do not have to live by those standards and where we have no mechanism by which to enforce those standards.

Now it is all well and good to talk about free trade. I want free trade. But the great dilemma we face is not having a fair process. And we are going to look at that in a hearing in about a week or

2 weeks where Lester Thurow will return and Clyde Prestowitz and Paul Volker and we are going to look at—Fred Bergstrom—we are going to look at this question of the fairness of the playing field over all.

And I would suggest respectfully that the whole question of national treatment under GATT needs to be totally rethought and I think that is part of the frustration that people are expressing when they say, I do not like this part of GATT or that part of NAFTA or whatever.

In a way, as I listen, I guess it highlights the larger problem which is that the Japanese and Germans are very good at defining the inevitable in a marketplace and then preparing for it and we are very good at defining the present and trying to enjoy it. And that is basically where we are with NAFTA.

My question to you, fundamentally, is what happens if we do not have NAFTA? What happens if you do not have this in terms of job loss, Japanese involvement, European involvement in the hemisphere, in the market? Where do we go in the long run here if we do not have this, bottom line?

Ambassador KANTOR. Let me make three points quickly there, not to take too much of the committee's time.

One is the expected 900,000 jobs by the end of 1995 which would be attributable directly to exports to Mexico will quickly become 500,000 jobs in this country, a loss of 400,000 jobs. That is No. 1.

No. 2, either one of two things happens in Mexico and both are not good. Either one, as you suggest, others take advantage of the opportunity to reach agreements with the Mexican Government and create trade zones which are not in our interests, frankly, as a country; or two, the Mexican economy begins to slide, which I think it would, wage rates go down and we lose a huge consumer market. That is—either one of those are not a good result for us.

No. 3, nearly as important or just as important, the growing market economies and democracies of South America, who are looking to the NAFTA for accession, who want to be involved with their growing economies with the United States and North America will lose heart, will look to other areas, will not be encouraged in what they have done.

Let me just mention one as Chile. Chile last year had 10.4 percent growth, 4 percent unemployment. They had a budget surplus and a trade surplus. Frankly, that is a record we would like to emulate.

And what we would like to do, of course, is grow this NAFTA into an AFTA, American Free Trade Agreement, which I think is in the best interests of this country.

If your scenario—I know it is your speculative scenario—that you lay out comes true, that will not happen. And so in all three areas, I would be deeply concerned, not to mention the political fallout which of course would be profound.

Senator KERRY. Well, this obviously is an area that begs so much more exploration and we are going to do it as time goes on here. But one thing that does concern me, because it is sort of the job training side and the investment side in this country, which we so willfully just ignored here in the Senate in our filibuster, and that is that Business Week recently said that the Mexican Government is now planning on how they can attract not just the low-wage jobs, but make it clear to people that by hiring at low wage then can train people up cheaper than it is for companies in this country to just look to the high wage job down the road here.

So, in other words, even the high-wage jobs, they are creating a strategy for—now, that is going to happen anyway. If you do not have NAFTA, they are still going to do that, because all other things being equal in the marketplace, there are going to drive to create their products at a lower cost and sell them, et cetera.

So, the question is, is our focus entirely in the right place? Do we not need to be simultaneously dealing more with this question of recognizing of whether you have NAFTA or do not have it, the fundamental key component that goes along with NAFTA is the investment/job training here in this country, so we do have the high wage jobs.

Ambassador KANTOR. I tried to address that, maybe not as eloquently as I should, earlier in this hearing, Senator. What I tried to talk about was it is not enough just to open markets and therefore attempt to expand trade. We need to have a competitive workforce and competitive business climate. That is what this President is trying to do with his economic package. And unfortunately, we had the filibuster in the Senate, which I think was not helpful of that, in which the stimulus package was not successful.

I think it is critically important that we be competitive, both our workers and our businesses ought to take advantage of what I believe to be our drive in this administration to open markets and expand trade, not only with NAFTA, but trying to put a framework around the APEC process.

In fact, you mentioned Fred Bergstrom, who we have talked about at some length. Also, try to gain a successful Uruguay Round which would probably boost world gross product about $5 trillion. So, all of those things fit together, it seems to me, in a mosaic that is in the best interests of American, but only if we are competitive.

Senator KERRY. Mr. Chairman, my light is on. I would just close by saying that I think—I still have problems with the agreement, as I said to the Ambassador, because of the lack of the clarity on the side agreement portion. But I will say that I think it is critical we keep our eye on the larger picture here. In this so-called recovery, as you well know—you have said it—we have upward of 500,000 jobs where normally we have had over 4 million. We are 3.5 million jobs short of what we need and what we normally had.

And so with or without NAFTA, we are going to—in fact, without it, you probably have as much incentive for companies in a country that is not creating jobs to say, "hey, I have got to find a way to survive. I am going south anyway."

And we are going to have them go south with high tariffs that prohibit us from creating the job base here that can export.

So, I think that we have really got to look at the larger picture here and I hope we will.

The CHAIRMAN. Very good. Mr. Ambassador, before you leave, we will insert in the record here relative to the most recent figures that your office has, the Mexican trade statistics that was given to the Special Ambassador for Trade in 1990.

It was $28.4 billion of U.S. exports to Mexico—$10.5 billion went to the maquilla and $5.2 billion went to temporary imports of the foreign trade zone. So, $15.7 billion never got to the market.

Then we look at the list given also to the special trade representative's office, of which you are now the ambassador, and we want to insert in the record the 50 leading exports by the United States to Mexico, 50 leading imports from Mexico into the United States and you will find that they are very, very similar.

In other words, whether you take electrical equipment, you take internal combustion engines, you take electronics, you take parts, office machines, men's, boy's coats and jackets. In 1991 we exported $162 million, and you would go over to find out the imports and we brought in $167 million. We are trading with ourselves. The record would reflect that.

And then the figures used relative to whether you gain or lose jobs. And I have tussled with this to try to find out—and I understand the real reason that they talk for the gain of jobs.

And that was finally exposed in the New York Times there recently. Those studies showing that the plush jobs, they assume full employee and they assume no shift in investment patterns. And that has been clarified by the Institute of International Economics which says that there will be a net loss of 5,400 jobs, beginning with NAFTA; the Economic Policy Institute which says we will lost 550,000 jobs; and the Economic Strategy Institute which says, in addition, the overall U.S. trade deficit rises by $15 billion and some 400,000 American jobs are destroyed by 1999.

The CHAIRMAN. History will show that you are the first Special Trade Representative to ever appear before the Committee on Foreign Commerce.

You know, Article 1, Section 8 of the Constitution says the Congress, not the Bush crowd, not the Clinton crowd, but Congress shall regulate—article 1, section 8—shall regulate commerce.

And then as we regulate, everybody will, oh, free, free, free, free, you must be a protectionist. And so we have the ridiculous situation of a special commission just appointed this week by the President of the United States to study the airline industry and airline transportation in America.

And it is very, very simple. Deregulation. As a result of the deregulations, they are now being taken over by the regulated in Europe. So, we sit around here and operate like in a vacuum and the European British Airways has to come in and save USAir. All the other British airlines that are regulated, protected, are eating our lunch.

And we have got to sober up. And then you look at this NAFTA agreement on balance, I can tell you right now, it is a disaster.

Thank you very much for your appearance.

Ambassador KANTOR. Thank you, Mr. Chairman. I appreciate it and I will come up here as many times and as often as you want me.

The CHAIRMAN. Yes, siree. And we now have a very important panel. We apologize, but you can see the interest.

We have got coming forward Mr. Thomas Donahue, the secretary/treasurer of the AFL–CIO; Dean Lester Thurow—let us have order.

It is not a rally here. We have got to move on. Move them out. Move everybody out.

The record will stay open for the Ambassador. You can see the tremendous interests and differences in views.

But let us begin right at the beginning with Dean Thurow. We would be glad, if you have a prepared statement, to include it in the record. And I will say that for each witness, we will include your prepared statements in the record in their entirety, and you can summarize it or deliver it. I am not in a rush now. I want to hear you.

We will start with Dean Thurow, then Mr. Donahue and Mr. Elisha.

STATEMENT OF LESTER C. THUROW, DEAN, SLOAN SCHOOL OF MANAGEMENT, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. THUROW. What I would like to argue this morning is that Mexico is both a problem and an opportunity, and it has almost nothing to do with NAFTA. The issue on NAFTA is how do you use NAFTA to make the Mexican-American relationship into a win-win relationship?

The problem is that the two economies are to integrate with or without NAFTA. And the only question is: How do you manage it successfully? And if you say: What are the drivers? There basically are three drivers.

One is the general movement toward a global economy. The second is we are not going to build a Berlin Wall and keep Mexicans out of the United States and shoot them as they come across the border. And the third driver is the huge change in Mexican attitudes.

If you said: "Why didn't American firms go to Mexico 20 years ago?" There is a simple answer: "Who invented the phrase 'Go home Yankee'? The Mexicans." "Who has the nastiest word in the world for Americans, 'gringoes'?" The Mexicans.

The Mexicans believe in socialism. They overtaxed and overregulated foreign businesses. They would not let foreigners own 51 percent of a company. You could not bring in foreign managers. And they literally threw stones at you, which was the reason why Americans did not go to Mexico—not the relatively low tariffs.

What has happened, of course, is because of the financial crisis in Mexico, the collapse of socialism in Eastern Europe and the success of Southeast Asia, these Mexican attitudes have been turned on their heads. If you look at the maquiladora projects, the Mexicans now say come to Mexico. And if you will export 100 percent back to the United States so you do not compete with Mexican industry, no taxes, no regulations, own 100 percent, operate in dollars, use American managers. And we will give you a parade after it is all over.

That is a very different set of attitudes.

And I would argue to that the integration with Mexico will proceed at approximately the same pace with or without NAFTA.

Now, I have no doubt that the United States will make net gains from our relationship with Mexico, in the sense that the American GNP will be larger. The problem is if you come to that conclusion by adding up the fact that we will have large gains, large losses, and then coming to the conclusion that you will get a small net gain, that just is not good enough. Because you have to ask yourself: "How are you going to minimize the losses?"

Now, let me put some of these numbers in context. First of all, there are not huge gains in Mexico to be gotten. The Mexican economy is 5 percent of the American economy, and that is 1 year of good growth in the United States, even if American firms were to sell everything in Mexico, which they will not.

Second, if you look at an American economy that has got about a $5 billion trade surplus with Mexico, and you remember that in manufacturing every 1 million jobs equals 45 billion dollars' worth of production, basically, the United States has made a net gain of about 100,000 jobs with its relationship with Mexico at the moment.

The problem you have to deal with is when people talk about whether the American workforce is competitive or uncompetitive averages are not interesting. The United States has about the top third of its workforce, which is the most competitive and best skilled in the world. The bottom two-thirds of its workforce is positively Third World. And that is true in most States in America.

I would argue to you that the people who talk about the amount of jobs that are going to move to Mexico and have estimated these based on historical data are simply wrong. They are estimating them based on data that would have been true if the Mexicans were still throwing stones and yelling "gringo," which they are not.

One of the things I do as a business school dean is walk around and talk to a lot of American business firms, and what I find is a lot of them have put their foot in the water in Mexico. It feels very good, and they are now planning to make major movements to Mexico.

For example, I was talking to a large Canadian company recently. They have a facility in Mexico where they pay $1.05 an hour. They make the same product in Toronto where they pay $13 an hour. And their Mexican productivity and quality is exactly the same as their Toronto productivity and quality. And we know what is going to happen to that Toronto facility.

Now, if you look in the United States and say: "Where are the winnings and where are the losings?" The problem is that the largest losses, even if the winnings exceed the losings, will be in the southeastern part of the United States. Because that is the part of the United States that basically has the lowest wage American manufacturing. And if you are a low-wage firm in Massachusetts and you wanted to move, you long ago would have moved to South Carolina or Alabama.

So, if you look at where the negative impacts are going to come regionally, I would argue the southeastern part of the United States is going to be the place where you get the biggest negative impacts.

Now, to emphasize this point about the bottom one-half of the American workforce, there is a set of numbers that if I could crawl into the mind of the President of the United States or of all the U.S. Senators, it is the number which I would most like to engrave in their minds. This is the number generated by the U.S. Census Bureau comparing 1979 and 1990. What they did was ask how many young American males 18 to 24 years of age who worked full time the full year. Which means they work 8 hours a day, 5 days a week, 52 weeks a year. How many could work that amount of time and still not make $12,195 in 1990 dollars?

Now, the reason the Census Bureau picked that number is that is about halfway between the poverty line for a family of three and a family of four. So, if you cannot make that sum of money, you cannot expect to support a family in the United States, even though you are working full time.

Back in 1979, 18 percent of the young males who were working full time could not earn that amount of money. What do you think the number was in 1990? The number was 40 percent. It had more than doubled in a decade.

Now, obviously, this does not have anything to do with NAFTA, because it occurred long before NAFTA happened. But it basically is the process that is going on in this global economy, where we have one-third of the American workforce that can compete in world markets, and two-thirds of the American workforce that is basically a Third World workforce that cannot compete being paid American wages. They can compete if they are paid wages equivalent to those in the Third World, but there is no American premium.

If you look at what happened to young women who were working full time for the full year, the percentage for them went up from 29 to 48.

Now, if you look at this issue, there are two parts of this problem that have to be solved in the United States. There is one part of this problem which I think we should use NAFTA to help us solve jointly. Part of the problem, of course, is that the bottom one-half or two-thirds of the American workforce has to be reskilled and reeducated not as a luxury, but as a crisis. Because if you went to the young men who were rioting in south central Los Angeles a year ago and said: "You have an economic future in America"—the simple fact is you are lying. They do not have an economic future in America at their skill level.

The second part of the problem we have to do in the United States is you have to make sure that you have an industrial strategy which is going to generate some of those new high-wage jobs of the future. For example, the second largest market in the world after automobiles is consumer electronics. There is no consumer electronics industry in the United States. It is highly unlikely that the United States is going to generate a lot of high-wage jobs if we are not even in the world's second biggest market.

Now, that industry at the moment is moving from analog to digital technologies. Americans have an advantage in digital technology when it comes to technology, but the question is: Are we going to be able to recapture part of that industry?

And so those things have to be done in the United States, and they should be done regardless of Mexico and regardless of NAFTA. But the change in Mexican attitudes is going to speed up that downward wage pressure on the bottom two-thirds of the American workforce.

Now, if you look at NAFTA as a joint activity, the real thing we have to do, I think, is convert NAFTA into a vehicle where it is outward looking, rather than just looking back and forth between Mexico and the United States. And what you would like to see happen in Mexico and the United States is we use certain components where Mexico has advantages in building them, certain components where the United States has an advantage in building them. We put those products together and we export them to the rest of the world, and we basically use Mexico in the way that Japan is using Thailand.

If you look at the Japanese investments in Thailand, almost no finished products come back to Japan. They are all exported or that is exported to the rest of the world. And that makes Thailand a win-win for Japan.

If those products all came back to Japan, Japan might still gain in terms of its GNP, but it would be the additional of a large gain and the subtraction of a large loss.

And so I think the real issue here is: How do you put an outward focus on NAFTA and how do you make it look at the rest of the world so that we can make it something that helps both Americans and Mexicans?

Thank you.

The CHAIRMAN. Thank you very much. Mr. Donahue.

STATEMENT OF THOMAS DONAHUE, SECRETARY/TREASURER, AFL–CIO, WASHINGTON, DC

Mr. DONAHUE. Mr. Chairman, the AFL–CIO opposes the current agreement because it represents bad public policy and because it will be ruinous to the U.S. economy. It is going to result in the loss of hundreds of thousands of American jobs and a decline in the standard of living for millions of American families.

Its supporters put out a very simple argument, all things being equal, increased trade is good for everyone and gives greater general prosperity. We do not disagree with that, obviously, as an academic assertion. But the fact of the matter is that there is nothing that is now equal between the United States and Mexico. In terms of average wages, we are looking at $16.17 in the U.S. manufacturing; we are looking at $2.35 for Mexican manufacturing workers. And in the maquiladoras, we are looking at an average wage of $1.64 an hour.

It is no wonder that hundreds of thousands of our jobs have already disappeared and gone south of the border.

We are told about the opening up of this great consumer market. Well, as Professor Thurow has pointed out, Mexico is a country with more than one-third of our population, yet it has 5 percent of our buying power. We could do more to advantage us in terms of sales if we did something about poverty within the United States.

Mexico has a 40-percent poverty rate, a 20-percent unemployment rate, and a gross domestic product which is one-twentieth of our own.

Most of those Mexican workers, sadly, particularly those in the maquiladoras, live in cardboard shanties, without electricity and running water. And they live in conditions that none of us would find acceptable.

The truth is that the average Mexican family simply cannot afford to purchase the products that they make, much less will they contribute to American prosperity by buying consumer goods from the United States.

The Ambassador spoke this morning about the trade surplus with Mexico. And there are several points that ought to be addressed there. There is every reason to believe that it is only temporary. What we are exporting now are capital goods and intermediate goods—capital goods, which they will use to build their productive capacities, and intermediate goods which are simply turned around and made part of the final product which is sent back to the United States.

Capital goods and intermediate goods accounted for 85 percent of all the imports into Mexico into 1991. So, any talk of surplus is a fairly fragile operation. Once those plants are built, the majority of the finished products of those plants has to come back to the United States. The purchasing power is not there in Mexico to take that product.

The current NAFTA will only exacerbate all of the bad trends that are current in the relationship. It is an effort to increase and to protect U.S. investment in Mexico. That is what it is about. It is not an effort to reduce tariffs. It is an effort to encourage U.S. investment in Mexico. The Mexican Government has been very clear about that goal, and it made it even clearer in the negotiations, when it was perfectly willing to write into the agreement the absolute guarantee of repatriation of profits, dividends, capital gains, guaranteeing the convertibility of currencies, guarding against the expropriation of property.

Capital is well protected in the current NAFTA agreement. It is fascinating to take a look at those protections for the business community and to take a look at the rights of working people. In the basic agreement, there is nothing—nothing about the rights of working people. It offers no guarantees of decent wages to people. It has no specific enforceable provisions talking about freedom of association or the right to bargain, minimum wage structures, occupational safety and health, the elimination of child labor—none of that is present in the basic agreement.

The Ambassador said this morning that those issues are now being negotiated. We think that is important that that be done. But from what we understand and from what the Ambassador said this morning, there are not going to be clearly enforceable rules in those agreements.

We believe those agreements, the side agreement on labor rights and standards, has to be enforceable and it has to be enforceable through trade sanctions. We think that has to flow from individual complaints, rather than "persistent patterns and practices." The Ambassador did not address what would be done on the labor rights side, but he noted on the environmental side that we would be able to react against persistent and pervasive unfair practices.

I submit to you that the jobs we are losing from unpersistent and unpervasive practices are already obvious in this transfer to Mexico, and apparently we are not going to be able to do anything about that unless it is "persistent and pervasive."

We think that unless worker rights are protected, it is inevitable that Mexican workers' wages, their working conditions, and their living standards are going to stay right about where they are. Maybe they will come up. Maybe the Mexican economy will improve. And maybe in 30 or 50 years we will look at conditions of equality.

But during all of that time, our hopes will follow our jobs into Mexico.

In addition to those problems, we have noted in our testimony, Mr. Chairman, and in our resolutions adopted, and in the comments of the Labor Advisory Committee to the USTR that there are dozens of other provisions within the basic agreement which will injure American workers. We find that the rules or origin are too weak. There are inadequate safeguard procedures. The rules for investment are inequitable. The market access that is provided is inequitable. And there are provisions within the basic agreement which must be changed to make it acceptable.

Now, the Ambassador has said and the President has said that we will not "reopen the agreement." If those things can be addressed in some other fashion, we want to see them addressed in some other fashion. If not, the agreement will have to be reopened.

Just to take a look quickly at three or four sectors. In the automotive section, Mexico retains the protections that it now has of its domestic producers for at least 10 years, and longer if they choose to negotiate those with the American companies.

The Canadians get to keep the benefits that they have of the current auto pact with the United States. We get nothing. We have no comparable protections for either our parts production or for our assembly.

In apparel, where 80 percent of the U.S. workforce is female and 20 percent is Hispanic, the agreement is clearly going to result in massive job dislocations, without any prospect of reemployment in the United States for those people.

In land transportation, NAFTA is going to allow Mexican carriers to operate anywhere in the United States—anywhere in the border States in 3 years, and anywhere in the United States in 6 years. And the wonderful quid pro quo is that American carriers will be able to do the same. The American carrier has a driver, obviously, who is paid $15 an hour; the Mexican carrier has a driver who is paid $2 a hour. I ask you to just think, without the statistics, without the academic or economic studies, you decide who will hire what kind of a driver for that truck.

The evidence is clear that the American trucking companies are now buying up Mexican subsidiaries. Everybody is free to figure out why.

This condition will present us with the reality in the United States of having Mexican truck drivers on U.S. roads being paid Mexican wages. They will be performing work in the United States in competition with American workers and being paid Mexican wages while they are doing it. I submit that that is going to present very little opportunity for American employment.

In the section on the temporary entry of business persons, NAFTA has departed from what has been up until now one of the cardinal principles of immigration policy, and that is that if an employer proves that he cannot find an American worker qualified for the employment, then he can import a worker. Now, that is gone.

We have already seen on our Canadian border the importation of Canadian nurses as strike breakers, brought in to break a strike in Watertown, NY. NAFTA will add the Mexican nurses to that pool.

When all is said and done, the American employers will follow the low-wage opportunity. There are statistics which show wages are 15 percent of the product cost or 20 percent or whatever, the evidence is clear, there are 2,000 maquiladora plants along that border employing 600,000 people at wages averaging $1.64 an hour. Those should be American jobs.

Take a look only at what the business community says. The Wall Street Journal did a survey of 455 senior executives last year. Fifty-five percent of the executives from companies with at least $1 billion a year in sales said if this agreement goes through, it is very likely or somewhat likely that they will shift some production to Mexico within the next few years.

The conference board issued a report predicting that during the next 2 years, business spending will grow almost three times faster in Mexico than in the United States. This investment pool of ours is not going to grow that quickly, and we are obviously going to experience in this country the substitution of investment in Mexico for what ought to be investment in the United States.

I think we ought to listen to the business leaders and take them at their word. I certainly believe everything that has been said here about the productivity of American workers, about them being the most productive in the world. We cannot compete against $1- or $2-an-hour wages.

At the end of the day, no amount of worker retraining programs, no technological advances in manufacturing, and no Government-business partnerships are going to bring back to this country the jobs and the investment dollars that the maquiladora program has already taken out, and that NAFTA will take from the States that you gentlemen represent.

We may need to change the rules of trade with Mexico. We certainly need to work to improve the economic situation of the Mexican nation. But we have to do far better than the current effort in this proposed NAFTA.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Donahue follows:]

PREPARED STATEMENT OF THOMAS R. DONAHUE

Mr. Chairman, on behalf of the AFL–CIO, I welcome this opportunity to present our views on the economic effects of the proposed North American Free Trade Agreement.

In brief, the current agreement would be ruinous for the U.S. economy, resulting in the loss of hundreds of thousands of American jobs and a decline in the nation's standard of living.

NAFTA supporters have put forward one very simple argument: all things being equal, increased international commerce results in greater general prosperity. We do not disagree on this. The fact of the matter is, however, that there is very little that is now "equal" between the United States and Mexico. And unless steps are taken to ensure equalization upward, this agreement will force wages, working conditions and environmental standards to be equalized down.

As you know, there have been projections that up to 550,000 American jobs would be lost as a result of NAFTA. While economists may debate what the actual figures will eventually be, there are some chilling statistics that no one can challenge.

It is a fact that over the past two decades, hundreds of U.S.-based manufacturing companies have laid off workers, closed profitable factories and moved to Mexico. There are now over 500,000 jobs in some 2,000 maquiladoras located just across the border—many of them directly exported from the United States.

It is also a fact that U.S. companies can pay Mexican workers a fraction of what American workers are paid. And that these companies openly admit that this is the reason they have exported our jobs.

In 1992, the average hourly compensation for American manufacturing workers was $16.17, for Mexican manufacturing workers it was $2.35. According to the Bureau of Labor Statistics, compensation in the maquiladora sector was even lower, averaging just $1.64 an hour. While we trust that this last figure is correct, I must tell you that those of us who have investigated conditions along the border have yet to find more than a handful of maquila workers who earn as much as $1 an hour.

As a result, the Mexican consumer market is depressingly small. Mexico is a country with more than one-third our population, but only 5 percent of our buying power. Currently, Mexico has a 40 percent poverty rate, a 20 percent unemployment rate, and a gross domestic product one-twentieth of ours. Many Mexican workers—particularly those in the U.S. dominated maquiladora sector—live in cardboard shanties without electricity or running water, and drink and bathe in unfiltered streams filled with toxic runoff from nearby plants. In fact, the average Mexican family simply cannot afford to purchase the products that they make, much less contribute to American prosperity by buying goods made in the United States.

Existing trade patterns underscore this reality. While it is true that we now have a trade surplus with Mexico, there is every reason to believe that it is only temporary. Capital goods (manufacturing plants and equipment) and intermediate goods (parts used to make final products which are sent back to the U.S. market) accounted for 85 percent of all imports into Mexico in 1991. Once plants are established, the vast majority of finished products will flow to the United States and Canada, where workers—at least for now—earn enough to also be consumers.

The current NAFTA was not designed to improve this picture, but to expand on it. As President Clinton has acknowledged, this is really an effort to increase and protect U.S. investment in Mexico.

President Salinas has done all that he can to attract such investment, including instituting what a recent Business Week article calls "a near-command economy." The article notes that "to smother inflation and preserve Mexico's huge labor cost gap with the U.S. and other producers, Salinas fixes salaries through a complex business-labor agreement known as el pacto."

He has more than met these goals. Over the last decade, even as billions of U.S. investment dollars flowed into Mexico, and cross-border trade increased dramatically, the wages of Mexican workers plummeted over 40 percent. Many workers have been prevented from joining trade unions; those who are lucky enough to belong to a union, are prevented from negotiating adequate wages and working conditions. If the Mexican government again chooses to devalue the peso, these workers will be powerless to prevent their wages from plummeting even further.

Now, in addition to ensuring artificially low wages, through NAFTA, President Salinas will be able to provide investors with even more security.

NAFTA guarantees the repatriation across borders of profits, dividends, and capital gains. It guarantees the convertibility of currency at market rates. It guards against the expropriation of property and it guarantees prompt compensation. It allows for the collection of business information for statistical purposes—but it ensures that specific information will be kept confidential if disclosure would "prejudice the investor's or the investment's competitive position."

It is fascinating to compare the enforcement of these protections for business with the enforcement of the rights of working people—or more precisely, the complete lack of it.

NAFTA sets up a detailed supranational dispute settlement mechanism that provides for binding arbitration. It also spells out, in exquisite detail, the remedies—including trade actions—that can be taken by inventors oı invention owners whose trademarks, copyrights or patents are exploited by those who refuse to pay a fair, negotiated price.

The men and women who make these products, however, are offered no guarantee of their right to a fair, negotiated wage.

In the entire agreement, there are no specific, enforceable provisions guaranteeing freedom of association, the right to collective bargaining, appropriate minimum wage structures, health and safety protections, or the elimination of child labor.

This issue, of labor rights and standards, is now being negotiated as a part of President Clinton's proposed supplemental accords. Unfortunately, from what we understand, enforceable rules—including trade actions that can be taken against specific corporate violators—are not yet a part of the negotiations.

Both the Government of Mexico and the same corporate executives whose Interests are already protected by this agreement will tell you that the inclusion of such provisions would be an intolerable infringement on national sovereignty. When they do, please ask them to explain why invention, a labor of the mind, should be considered more sacrosanct than the labor accomplished by the sweat of the brow.

Until both are honored, el pacto will continue to keep Mexican workers' wages, working conditions, living standards and purchasing power artificially low. Unless both are a part of this agreement, our own living standards will follow our jobs south of the border.

Beyond these intrinsic faults, the NAFTA contains dozens of specific provisions (as noted in the attached AFL–CIO Executive Council statement) which would harm domestic employment. Weak rules of origin, inadequate safeguard procedures, inequitable rules for investment, and inequitable market access—these are but a few of the provisions that would be detrimental to U.S. workers.

In the automotive sector, NAFTA would let Mexico retain protections for its domestic producers for at least 10 years, and even longer if the Mexican government demands future commitments from the companies. It would permit the Canadian government to retain the safeguards of the Auto Pact—but the United States would have no comparable protection for either parts production or assembly.

In the apparel sector, where 80 percent of the work force is female and 20 percent is of Hispanic origin, the agreement would result in massive job dislocation without offering any prospect of reemployment.

In the land transportation sector, NAFTA would allow Mexican carriers to operate in U.S. border states in three years, and it would give Mexican carriers access to all of the United States for transporting freight and persons originating south of the border in six years. But even though Mexican truck drivers and bus drivers might work full time in the U.S., they would not be protected by our minimum-wage laws.

In its chapter on "temporary entry for business persons," NAFTA departs from one of the cardinal principles of U.S. immigration policy, which is that employers can hire temporary entrants only when they show that they are unable to recruit workers here.

We have already seen the importation of nurse strike-breakers from Canada, and now we would add Mexican nurses to the labor pool.

Some claim that it is the greenest trade agreement in American history. Since no previous trade agreement said anything about the environment, that is technically true. But in fact, this agreement is a green light for the most greedy corporate polluters on the North American continent.

It has no provisions to remedy the terrible environmental degradation that already exists along the border. It would expose U.S. health and safety standards to being challenged as "barriers to trade." And it does not allow for trade actions to address violations of environmental standards.

In other words, it offers no recourse—none except for "consultations"—against a country that has consistently failed to enforce its own environmental laws in order to attract new investment. This means that if Mexico continues to wink at environmental abuse in order to attract investment, all we can do is to consult.

If NAFTA is adopted, as is, what will be its economic effects? USA-NAFTA, a business lobbying group and the Government of Mexico have each committed millions of dollars to convince you that this agreement is economically beneficial. For them it would be, but this does not mean that it would benefit the majority of Americans.

Last year, the Wall Street Journal published a survey of 455 senior executives of manufacturing companies. Fifty-five percent of executives from companies with at least $1 billion a year in sales said that, if this agreement goes through, it is very likely or somewhat likely that they will shift some production to Mexico within the next few years. And according to a Conference Board report, during the next two years, business spending will grow almost three times faster in Mexico than in the United States.

I believe that we should take these business leaders at their word.

The American worker is still the most productive in the world. But we know from experience that a Mexican worker, who is not allowed to earn more than $1 or $2 an hour, is quite capable of equaling that rate of productivity.

Unless something is done to change the rules of the game, no worker retraining, no technological advances, no government-business partnerships, can bring back the jobs and the investment dollars that NAFTA will take from the states you represent.

We can and we must do better.

Thank you.

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON THE NORTH AMERICAN FREE TRADE AGREEMENT, FEBRUARY 17, 1993—BAL HARBOUR, FL

The proposed North American Free Trade Agreement, signed by President Bush but not approved by Congress, would be a disaster for millions of working people in the United States, Canada and Mexico. It should be rejected and renegotiated to advance the overall public interest.

As drafted, NAFTA is an agreement based solely on exploitation. It would destroy jobs and depress wages in the U.S. and Canada by abetting the further transfer of jobs to Mexico. At the same time, it would do nothing to uplift the desperately low wages and harsh working conditions of the Mexican people.

While providing extensive protection for investors, the agreement ignores the rights of working people, and it would limit the ability of governments to adopt measures to promote employment and protect public health, safety and the environment.

We call on the Clinton administration to negotiate a new agreement that will stop the flight of jobs from the U.S. and will alleviate the deplorable conditions in the maquiladora areas. In order to ensure that expanded trade provides broadly-based benefits, a renegotiated NAFTA should stand up for worker rights, strong labor standards, consumer health and safety, and environmental protection.

In particular, we urge that the next round of negotiations lead to the inclusion of the following elements in the agreement:

- A measure whereby infractions of labor rights or workplace standards can be enforced by trade actions. Areas to be addressed include the right to organize and bargain collectively, the establishment of strong workplace health and safety standards, appropriate minimum wage structures, the elimination of child labor, a prohibition on forced labor, and guarantees of non-discrimination in employment.
- Provisions to address the existing environmental degradation of the border area, based on the "polluter pays" principle, as well as provisions to permit trade actions to address violations of environmental standards.
- Tougher rules of origin, so that any benefits derived from an agreement will accrue to workers and producers located in the three countries.
- The immediate elimination of duty-drawback programs.
- The immediate elimination of export performance requirements and import-licensing schemes.
- The requirement that all internationally-traded goods are marked with their country of origin.
- Safeguard provisions that protect U.S. workers against import surges.
- The continuation of federal, state and local "Buy American" laws and regulations.
- The enforcement of strict sanitary and phyto-sanitary standards with no restriction on improvements in those standards.
- The continuation of necessary federal and state regulations concerning the provision of financial and insurance services.
- Strict limitations on the "temporary entry" of persons to provide services, including transportation services, and the prohibition of entry to affect a labor dispute. Any temporary entrant must, at minimum, be paid and work under conditions prevailing in the host country.
- A prohibition on transferring work or workers across borders in the event of a labor dispute, and a prohibition on trade while a labor dispute is in progress.
- The ability of government to adopt standards and related measures to protect public safety or the environment.
- Reciprocity in the treatment of foreign investment.
- Equal market access for cultural industries.
- Safeguards for U.S. automotive production, equivalent to safeguards present in Mexico and Canada, and the continuation of existing CAFE rules.

- Provisions that address the needs of import sensitive industries, including but not limited to textiles and apparel, electrical and electronic, glass, tuna, meat, sugar and light duty trucks.
- A five-year review of the economic impact of an agreement that would permit parties to suspend provisions when necessary to address labor market disruptions.
- Provisions for additional debt relief for Mexico, so that it can begin investing at home to improve the standard of living of its people.
- A cross border transaction tax to serve as a major funding source for needed programs including:
    - a substantial increase in funds for food safety inspection and the customs service;
    - sufficient funds to improve the infrastructure of the border area, 'including water treatment, electricity, and needed housing and schools;
    - a significantly improved Trade Adjustment Assistance program to provide guaranteed benefits to workers harmed by trade.

Finally, legislation should be enacted to eliminate the foreign tax credit and deferral and to deny trade benefits to companies that transfer production to Mexico. For workers dislocated by any such transfers, companies should be required to cover health insurance, pay severance, training and job search costs.

The CHAIRMAN. Thank you. Mr. Elisha.

STATEMENT OF WALTER Y. ELISHA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SPRINGS INDUSTRIES, FORT MILL, SC

Mr. ELISHA. Mr. Chairman, my name is Walter Elisha and I am the chairman and chief executive office of Springs Industries.

The CHAIRMAN. Can you move that microphone up a little bit closer. I want to make sure we can all hear. Thank you.

Mr. ELISHA. I appear today as a member of the Business Roundtable, its international trade task force, and also as the second vice president of the American Textile Manufacturers Institute. And I think as you know, Senator, both of these organizations, among many others, ardently support the North American Free Trade Agreement.

I am also a member of the President's Advisory Committee for Trade Policy and Negotiation, And I hasten to add, for those of you who do not know this, that my company, with sales of $2 billion, is the largest industrial employer in Senator Hollings' State of South Carolina.

And I appreciate this opportunity. In fact, Senator Dorgan, I appreciate this opportunity to speak to you and to Senator Hollings, since your colleagues have had to leave, about why the overwhelming majority of the members of our industry, the directors in our industry association, my colleagues at Springs Industries, the Business Roundtable, and more than 1,300 member firms and associations that have joined USA*NAFTA, and countless others join me in supporting this milestone agreement.

There are, I believe, at least five vitally important ways in which NAFTA will improve the status quo for this country. First, the North American Free Trade Agreement will create a trading zone of 360 million people. That is the largest trading area in the world, a number far larger than the current European Economic Community that has been discussed.

And the people of these three countries, the Mexicans and the Canadians and the Americans, will all benefit from this trade zone. A wider array of products of higher quality and greater value will be available to consumers throughout North America, and as a result more jobs will be created resulting in a better quality of life.

I believe NAFTA will make the businesses of all three of these nations more competitive. And we have already seen firsthand evidence of that with the existing Canadian Free Trade Agreement. And we also see firsthand evidence of the benefits of liberalizing trade with Mexico. We have talked already this morning, and in the interests of time I will not repeat it, that we have gone from a deficit with Mexico to a trade surplus, an increase of more than $10 billion, in a relatively short time since President Salinas reduced the tariffs on products coming into this country.

And it was only a partial liberalization. Tariffs exist right now that are 2½ times as high as ours on average, as well as other onerous nontariff barriers. NAFTA, by finishing the partially completed Mexican liberalization process, will lock in those jobs that have been created in the United States thus far, and it will generate new ones through new U.S. exports.

Importantly, Secretary of Labor Robert Reich has stated U.S. workers have little to fear from NAFTA and much to hope for. And I would add to that, Senator Hollings, that if anyone has the chance they should visit retail stores in Mexico and look at the increasing amount of American-made product that is on the shelves of retail stores in Mexico.

Second, NAFTA will create more and better jobs than currently exist in all three of these countries, and in all likelihood in each of the three countries. Virtually all of the studies, including those conducted by independent research furnished for the Department of Labor and the International Trade Commission, demonstrate that the United States will show a net gain in jobs. Some jobs in some sectors will inevitably be lost. And we all need to be deeply concerned about any job loss for whatever reason, because job losses cause pain.

But we must also keep in mind two critical factors. It has been mentioned this morning and I will repeat it again, the absence of NAFTA gives no assurance that certain jobs may not disappear anyway. And second and just as important, all of us have a duty to be certain that the long-term strength and viability of the other 109 million jobs in this country, that those positions continue to be strong as we go forward.

Importantly—and you would be interested in this, Senator Hollings—at Springs we expect to add nearly 900 jobs, most of them in the State of South Carolina, just to meet our anticipated demand as a result of more open trade with Canada and Mexico, and we have no plans to move anything to Mexico—900 more jobs in the State of South Carolina. So, even though Dean Thurow believes there will be job loss in the Southeast, I can give you one example, Dr. Thurow, where there will be job increases.

I think it is important to keep in mind—and this has been referred to in a variety of ways this morning—that the NAFTA can be an important counterbalance to the trading blocs that are in place or are already emerging in Europe and in Asia. Without NAFTA, our own markets can be increasingly served by the high-technology and developing economies, particularly those in Asia where U.S. products and services continue to be held at bay.

The markets and the talents of Canada and Mexico and the United States can be shared through NAFTA, that make the economic total far stronger than the simple sum of the parts. And please remember, it is important to repeat, that if we reject this agreement, Mexico can easily turn to other parts of the world for their investment and for their economic growth.

Fourth, and I think quite importantly, NAFTA will provide the framework for extending more open trade to the rest of the Western Hemisphere. I believe it important that we build markets incrementally where issues of geography, culture, reciprocal access, and commonality make sense. And an extended North American Free Trade Agreement will be an important first step toward more open hemispheric trade and even world trade, allowing other nations time to gain experience, to stabilize their economies, and to build market alliances.

Please keep in mind that we know that the Caribbean Basin countries are quite interested in joining NAFTA. And I think all of you know, Chile, Guatemala, Colombia, and Venezuela all have signed trade agreements with Mexico, just as we have in place an agreement with Canada.

Fifth, the NAFTA will bring resources to bear on the environmental and immigration concerns about which so much has been said and has been discussed this morning. Without trade and investment, Mexico in particular will be unable to develop its infrastructure or to create good jobs to keep its people at home, or improve its enforcement of what are now strong environmental laws on their books.

NAFTA is already the greenest trade agreement ever written—the greenest trade agreement ever written. And even though there continues to be heated debate over the structure, scope, and authority of the NACE, major environmental groups, I believe, are now recognizing that there will be a better protection of the environment under NAFTA than there will ever be if NAFTA is defeated.

Let me close by addressing four specific NAFTA issues. First, the recurring theme that jobs in apparel and other industries will be lost to Mexico needs to be tempered. The fact of the matter is that American companies can go to Mexico today to obtain lower labor rates under the 807 regulation. American companies, as you know, can assemble U.S.-made parts offshore and return the finished products to this country and pay only duty on the value added.

So, American companies do not have to wait for NAFTA if their only goal is lower wages. This country will always lose the lowest paying, least productive firms in any industry. That is the free-market system, that is how the competitive system works in this country, and we should not let emotional rhetoric mask the truth that trade and business are about serving customers and serving markets.

Second, my industry, the textile industry—and Senator Hollings is very familiar with it—has one of the highest rates of capital spending and productivity improvement over the past 15 years of any American business sector. We are the most productive textile manufacturers in the world because of our people and because of our technology, and we do not need to produce fabric in Mexico in order to compete.

The American textile industry, in fact, will have the opportunity to supply fabric to apparel producers in Mexico, whether they are in Mexico already, are branch plants of American companies, or most importantly of all—most importantly, those plants currently in Asia that can be moved—American plants operating in Asia that can be moved to Mexico from Asia to obtain shorter supply lines and provide faster service to American retailers.

This is not the time, then, to punish an industry like ours by allowing other countries to maintain high barriers to our exports. Reward us and reward our American workers by using NAFTA and other well thought through trade agreements to knock down trade barriers and enable us to export even more and create more U.S. jobs. NAFTA represents growth opportunities for U.S. textile producers, whether they sell an ingredient product such as fabric for apparel or consumer home furnishings, for retail markets that will grow rapidly.

Finally, I ask that you keep this trade agreement with our closest neighbors in some perspective. This has been alluded to at different times this morning, but I want to get the facts in order so the comparison can be made. The gross domestic product of the United States is $6 trillion. It is $6 trillion. Canada's is $552 billion; that is less than the State of California. And Mexico's gross domestic product is $334 billion. Which means, quite clearly, that the gross domestic product of the three countries covered by this trade agreement is $7 trillion, and 87 percent of that is covered by the United States and only 5 percent by Mexico.

Dr. Thurow referred to these figures, and also indirectly to the investment figures. American companies in 1992 invested $6 billion in Mexico—$6 billion. And they simultaneously invested $800 billion in the United States. So, we need to keep in mind that this is a very small country whose gross domestic product is somewhat less than that of the State of Florida and one-third of the State of California, so we do not allow people with their rhetoric to paint it as an economic giant about to take us over.

Those American businesses that want or need lower labor costs can already leave the United States either by contract purchasing from companies in Asia or simply, under the 807 regulation, move offshore.

Finally, I would say to you that NAFTA is not only a good trade agreement, it is the right thing to do. Ensuring a prosperous and stable Mexico and a stronger Canada will help ensure a strong and peaceful Western Hemisphere. No matter what the outcome, we will always be close neighbors, NAFTA or not, and we share thousands of miles of borders with these two countries and most of those borders are completely open. Mutually strong and independent neighbors under this agreement are clearly preferable to what has sometimes been the case in the past.

So, finally, I believe that NAFTA creates a trading zone of 360 million people. It creates more and better jobs here in America. It is an important counterbalance to trading blocs in other parts of the world. It will, I believe, be a model for a hemisphere trade agreement eventually, and it brings to bear resources on the environmental and immigration concerns that have been reported on this morning.

So, I urge your support, Senator Hollings and Senator Dorgan, of this agreement. And I welcome your questions, as I know my colleagues on this panel do.

[The prepared statement of Mr. Elisha follows:]

PREPARED STATEMENT OF WALTER Y. ELISHA

Mr. Chairman, my name is Walter Elisha. I am Chairman and Chief Executive Officer of Springs Industries of Fort Mill, South Carolina. I appear today as a member of The Business Roundtable, its International Trade Task Force, and also as Second Vice President of the American Textile Manufacturers Institute. Both of these organizations, among, of course, many others, ardently support the North American Free Trade Agreement.

I am also a member of the President's Advisory Committee for Trade Policy and Negotiation, and I hasten to add that my company, with sales of $2 billion annually, is the largest industrial employer in the Chairman's home state of South Carolina. I appreciate the opportunity to appear before your Committee today in these roles, and I will be brief in telling you why my colleagues at Springs, the overwhelming majority of the Directors of the American Textile Manufacturers Institute, The Business Roundtable, the more than 1,300 member firms and associations that have joined USA*NAFTA, and countless others join me in supporting this milestone trade agreement.

The NAFTA will bring a tremendous improvement over our current relationship with Mexico. There are, I believe, at least five vitally important ways in which NAFTA will improve on the status quo.

First, the North American Free Trade Agreement creates a trading zone of 360 million North American people—a number larger than the European community. The people of three countries—Mexico, Canada and the United States—will benefit. A wider array of products of higher quality and greater value will be available to consumers throughout North America; and, as a result, more jobs will be created, resulting in a better quality of life.

NAFTA will make the businesses of all three nations more competitive. Already we see firsthand evidence of that with the existing Canadian Free Trade Agreement. We also see firsthand evidence of the benefits of liberalizing trade with Mexico. Before Mexico began to open its markets in 1986, we had a closed trading relationship with Mexico. Mexico had enormous barriers to our exports. This caused a bilateral trade deficit—$4.9 billion in 1986—and real job losses due to trade with Mexico. Since Mexico has partially liberalized its trading system, beginning in 1986, our bilateral trade balance has improved by $10.3 billion to a surplus of $5.4 billion—creating more than 225f 000 net U.S. jobs. Despite these gains, Mexico has only partially liberalized; it still has tariffs that are 2½ times as high as ours on average, as well as onerous nontariff barriers. NAFTA, by finishing the partially complete Mexican liberalization process, will lock in the jobs that have been created so far and generate new ones through new U.S. exports. As Secretary of Labor Robert Reich has stated, "U.S. workers have little to fear from NAFTA, and much to hope for."

Secondly, the NAFTA will create more and better bobs than currently exist in all three of these countries and, in all likelihood, in each of the three countries. Virtually all of the studies—including those conducted by independent research firms for the Department of Labor and the International Trade Commission—demonstrate that the United States will show a net gain in jobs. Some jobs in some sectors will inevitably be lost, and we all need to be concerned about how the elimination of these jobs, for whatever reason, causes pain; but we must also keep in mind two critical factors. First, the absence of a NAFTA gives no assurance that certain jobs may not disappear anyway; and, secondly, we have a duty to be certain that the long-term strength and viability of the 109 million jobs in America continue to exist.

At Springs, we expect to add more than 900 jobs in the United States just to meet the anticipated demand as a result of more open trade with Canada and Mexico; and we have no plans to move anything to Mexico.

Thirdly, the NAFTA can be an important counterbalance to the trading blocs in place or emerging in Europe and Asia. Without NAFTA, our own markets can be increasingly served by the high-tech and developing economies, particularly those in Asia, where U.S. products and services continue to be held at bay. The markets and the talents of Canada, Mexico and the United States can be shared in a fashion through NAFTA that makes the economic total far stronger than the simple sum of the parts; and please remember that, if rejected by the United States, Mexico can easily turn to other parts of the world for investment and economic growth.

Fourthly. NAFTA will provide the framework for extending more open trade to the rest of the Western Hemisphere. I believe it important that we build markets incrementally where issues of geography, culture, reciprocal access, and commonality make sense. An extended North American Free Trade Agreement will be an important first step toward more open hemispheric and even world trade, allowing other nations time to gain experience, stabilize their economies, and build market alliances. Even now, we know that the Caribbean Basin countries are quite interested in joining NAFTA; and, as you know, Chile, Guatemala, Columbia, and Venezuela have signed trade agreements with Mexico.

Fifth, the NAFTA will bring resources to bear on the environmental and immigration concerns we have heard so much about. Without trade and investment, Mexico, in particular, will be unable to develop its infrastructure, create good jobs to keep its people at home, or improve its enforcement of what are now strong environmental laws. NAFTA, by the way, is already the greenest trade agreement ever written. Even though there continues to be heated debate over the structure, scope and authorities of the NACE, major environmental groups are now recognizing that there will be better protection of the environment under NAFTA than if the NAFTA were defeated.

Let me close by addressing four specific issues regarding NAFTA:

- First, enforcement is the key. NAFTA is a good agreement, and its customs provisions are strong. What remains, of course, is the need to equip U.S. Customs with the resources needed to do the job. This Committee can play a vital role in seeing that this funding is available.
- Secondly, the recurring theme that jobs in apparel and other industries will be lost to Mexico needs to be tempered. The fact is that American companies can go to Mexico today to obtain lower labor rates under the "807" regulation. American companies can assemble U.S. made parts offshore and return the finished products to this country and pay duties only on the value added. So, American companies do not have to wait for NAFTA if their only goal is lower wages. We will always lose the lowest-paying, least-productive firms in any industry. That is the free-market system, and we should not let emotional rhetoric mask the truth that trade and business are about serving markets.
- Which brings me to my third point, which is specific to textiles and apparel and speaks to the differences between the two. My industry—the textile industry—has one of the highest rates of capital spending and productivity improvement over the past fifteen years of any American business sector. We are the most productive textile manufacturers in the world because of our people and our technology. We do not need to produce fabric in Mexico in order to compete. The American textile industry will have the opportunity to supply fabric to apparel producers in Mexico, whether they are in Mexico already, are branch plants of American companies, or, importantly, those who can be moved to Mexico from Asia to obtain shorter supply lines and provide faster service to American retailers. Don't punish us by allowing other countries to maintain high barriers to our exports. Reward us, and reward our American workers, by using NAFTA (and other good trade agreements) to knock down those barriers and enable us to export even more and create more U.S. jobs. NAFTA represents growth opportunities for U.S. textile producers, whether they sell an ingredient product, such as fabric for apparel, or consumer home furnishings for retail markets that will grow rapidly.
- Finally, let's keep this trade agreement with our closest neighbors in perspective:

> the Gross Domestic Product of the United States is $6 trillion; Canada is $552 billion (less than the State of California); and Mexico's is $334 billion;

which means the Gross Domestic Product of the three countries involved in NAFTA is nearly $7 trillion, 87 percent of which is accounted for by the United States, and just 5 percent by Mexico. To suggest that American companies will rush to Mexico because of lower labor costs grossly oversimplifies site selection criteria for manufacturing companies such as access to raw materials, access to market, energy costs, and other manufacturing costs, while grossly underestimating the resourcefulness of American business people. Those American businesses that want or need lower labor costs can already migrate to other nations. The North American Free Trade Agreement will not add to that exodus.

NAFTA is not only a good trade agreement, it is the right thing to do. Ensuring a prosperous and stable Mexico and a stronger Canada will help ensure a strong, peaceful hemisphere. We will always be close neighbors, NAFTA or not, sharing thousands of miles of borders with Mexico and Canada. Mutually strong and interdependent neighbors under NAFTA are clearly preferable to what has been our history without NAFTA.

NAFTA will:

- create a trading zone for 360 million people,
- create more and better jobs,
- be an important counterbalance to trading blocs elsewhere,
- serve as a framework for extending hemispheric trade,
- bring resources to bear on the environmental and immigration concerns.

I urge your support of this Agreement and welcome your questions.

The CHAIRMAN. Very good.

In the limited time here, at least—Dr. Thurow, I want to get Mexico moving along. Specifically, if you wanted to look in a crass fashion about opportunities—you say it is not only a problem but an opportunity. And I am looking at the problem, let us say, in Russia. The Soviets, they have got nuclear missiles. So, while I myself would like to do Mexico first and Russia a little bit later on, some could well argue let us get a free trade agreement and hurry up with Russia. Mexico does not have any missiles to get after us. They have got some immigrants, but not any missiles.

So, I want to do it in Mexico, though. And you mentioned the Thailand example of Japan using it as an export platform. Why not take—with respect to Mexico spending one-half of its export revenues on debt relief and payments, why not—let us write off at least one-half of the $80 billion still left, $40 billion, like we did for Poland. Why not, because the banks have already written it off with their income tax.

Why not take and reallocate on a globalized basis all, as I have said before, the textiles, the shoes, and the business everything down there, and then use Mexico as an export platform for the United States while we try to build them up with a social compact?

The London Economist, in other words, said look, Mexico is by no means any democracy. In fact, it is the perfect dictatorship. And you see in the New York Times when they privatize, they give it over to about 30-some buddies of Salinas. So Sooey, pig, they all came in—it reminded me of Morrie Stans days up here—and they all came in giving $25 million to keep the PRC going and everything else of that kind.

Now that crowd is in total control of the labor rates and everything else like that, and I am trying to bring in a middle class. It is to their interests, of course, to never develop a middle class. That was the frustration that President Kennedy had. The money went down, it went to the government, it went to the ruling class, it went to the military, it went to the Geneva bank accounts. And like delivering lettuce by way of a rabbit, it never got through to the people.

I am trying to get it through to the people. I am trying to set up the mechanism and set up a social pact with Mexico to bring in free trade, free democracy, free elections. What is wrong with that approach?

Dr. THUROW. Well, actually, I do not think there is anything wrong with that approach, because I think that would be preferable to what we are planning to do. You are absolutely right, Mexico would not be allowed to join the Common Market, because you have to meet certain standards of being a multiparty democracy to join the Common Market, which Mexico does not meet.

It is also true to point out, as you did earlier, that in the Common Market the idea was to make some deliberate investments to harmonize wages upward, rather than harmonize wages downward. And I think if you were going to make the Mexican agreement work as a positive agreement for both countries, the fact of the matter is some Americans do have to be willing to pay taxes, just like the Germans pay taxes to help Portugal, to harmonize upward.

And it is important to understand we are not doing a common market; we are doing something that is very different—a free trade agreement. And free trade agreements have never worked. EFTA failed. Common markets can work, but free trade agreements fail. And the reason they fail is exactly what you talk about, because you have to make these joint social investments.

And I do not know any free trade area that has ever worked for any long period of time. I know lots of common markets that have worked, including the one in the United States. When you talk about these social investments and when you talk about making it export oriented, I think those are things we ought to focus on.

The CHAIRMAN. Your testimony ends the debate for this Senator. But in all respect to my good friend Mr. Elisha, and we really appreciate him appearing, I have had the opportunity—I got elected 45 years ago and shortly thereafter met with Colonel Springs at Springs Mills on an air-conditioning bill. That goes all the way back to those particular interests.

And I have had the opportunity to be the lawyer up here in the U.S. Senate and seven times passed a textile bill, four times all the way not only through the Senate, but through the House and over to a President, Carter, President Reagan, and President Bush.

So, I know and have been educated by the industry, and am proud of the productivity we have at Springs. And while you have got 20,000 workers that I continue to represent, I also have got to represent the 40,000 that we have got in South Carolina and the otherwise 1 million apparel workers that we have in America.

And we look at Conference Board and it is categorical. Since apparel is a highly labor intensive industry, substantial cost advantages can be gained from Mexican-based operations. And it goes right on down and tells how Cone Mills is going down there. Your competitors are going. And, in fact, there was one report that you had an individual down there looking for sites, and yet I noticed by your statement that you said you had no idea of anything going down into Mexico. You do not have anybody down in Mexico looking for sites.

Mr. ELISHA. Our interest in Mexico is simply as a market. We can produce in South Carolina at costs that we can ship to Mexico and give the Mexican consumer a better value than they can obtain in that market. If we rent anything there, it would be a distribution center so that we could provide the same kind of service to Mexican retailers that we do to American retailers. People select locations, Senator, for more reasons than wages. They select them for market access, for access to raw materials, for whatever it happens to be.

Our interest, whether it is Canada where we currently have warehousing facilities, or eventually in Mexico, is a way to provide our products to those consumers at better value. And it is a plus for the people in your home State when our business grows outside of the United States.

The CHAIRMAN. Then why are you having me object to GATT and the doing away with the multifiber arrangement and the lowering of the tariffs there?

Mr. ELISHA. I am glad you asked that question so I can get it into the record, because trade agreements, as you know as well as anyone, are enormously complicated and the U.S. textile industry, with the USTR's office and with the Mexican textile industry, worked very hard on the NAFTA agreement to be certain that it serves the best interest of the consumers in all three countries and the industries in the three countries, and the result is the North American Free Trade Agreement.

We did not have that opportunity in the Uruguay Round discussions on GATT, and I continue to oppose the GATT agreement as the language is currently drafted. Although as you and some of your colleagues have said here this morning several times, Ambassador Kantor gives us new hope that that office will understand fair trade, equal access to other markets, because we can compete, and most of the textiles firms in your home State can compete with textile firms in other parts of the world, and that is why the directors of the American Textile Manufacturers Institute overwhelmingly—it was overwhelming—supported this agreement.

I think where we erred is we did not tell you fast enough that we were in favor of the NAFTA agreements, and for that I apologize. I continue to oppose the language of the Uruguay Round—quite a different agreement, as you well know—while I ardently support this, which is probably some change for an industry that typically is opposed, has opposed all trade agreements.

The CHAIRMAN. Well, you see, you have got me going in two different directions. I am jumping all over Ambassador Kantor saying for heaven's sakes, hold up on that GATT, do not cut the tariffs, do not have a 10-year phaseout of the multifiber arrangement because I am going to lose 1 million textile jobs but I am coming along in the other thing, and you want me to say to Ambassador Kantor, "Whoopee, let us go ahead with NAFTA so we can lose 1 million apparel jobs." I mean, I am going in two different directions.

Mr. ELISHA. You and I are both going in different directions with Ambassador Kantor, because I told him as he left here how ardently we support NAFTA and how stridently we oppose the Uruguay Round, so you and I are both carrying that message, a different message on each shoulder, and that is what democracy is all about and what trade agreements are all about, and with your help we are going to get the Uruguay Round corrected, and between now and the vote I will have got you to think differently about the NAFTA agreement. [Laughter.]

The CHAIRMAN. Thank you. Senator Dorgan.

Senator DORGAN. I would not put a lot of money on that. [Laughter.]

Mr. ELISHA. I do not think I would, either. [Laughter.]

Senator DORGAN. I am sorry I missed your presentation, Dr. Thurow. I have been a big fan and read most of your work. I think you grew up in Glendive, MT, actually close to where I grew up in southwestern North Dakota.

I guess I would like to ask a more general question this morning of you specifically, and then another question of the other two witnesses.

I was reading the other day about a description of a woman named Sabisha who makes shoes in Indonesia. She works 6 days a week, 10½ hours a day, and makes shoes—tennis shoes. Her monthly earnings would allow her to purchase one-half a pair of tennis shoes when they are shipped to this country for consumption. In other words, the amount of money paid to those that produce the product, in this case a tennis shoe, is a pittance as compared to the ability to clear it from the shelf at some point.

You talked and everybody talks about this being a global economy, integrated international networks, and so on and so forth, and it is a fact. I mean, it is moving in that direction.

I am wondering, as someone who taught economics briefly in college and survived it, but nonetheless I taught it for a couple of years, if production generally internationally in the world is achieved in areas where, when you circle the Earth in a plane and find out where is the cheapest, the least costly place to produce my product, and eventually that becomes the locus of most production that is labor-intensive, will it be an income stream generally across this world that allows consumers to clear those products off the shelf?

Are we not creating a tremendous difference in the income stream that we used to assume would occur from production in this country that allowed the clearance of those products from the shelf?

I mean, can you describe to me as an economist where we are heading with these kinds of global economy decisions?

Mr. THUROW. One of the things you may be referring to is something that Lord Keynes talked about in the 1930's. Capitalism does have a tendency for supply to grow faster than demand, which means you have a role for governments—and by demand we mean both consumption and investment demands—for governments to make sure that demands are growing in parallel with supply.

Certainly one of the things that happened over the last decade on a worldwide basis, we have been involved—and one of the reasons we all have problems is we build up enormous excess capacity. You know, we take almost any product you think of, and if you went around the world and said, suppose every factory making that product in the world operated at capacity, how much could the world build, and then you make the most generous estimate possible, how much is the world going to buy of that product, you will find 30 percent excess capacity for almost everything. For some things like computers the world could build two for every one it is going to buy.

The problem is that Lord Keynes taught us how to solve that problem on a national basis—what we know as Keynesian economics: lower interest rates, cut taxes, raise Government spending when you have a shortage of aggregate demand—and which now cannot be applied on a national basis. You have to do it internationally, and you cannot get the kind of global economic cooperation to do it.

If you look at Japan, Germany, and the United States together, we are about 50 percent of the world's GNP, which is what the United States used to be by itself, and so nobody out there can be a locomotive for the world the way the United States used to be a locomotive for the world, and so there is a structural problem there.

Senator DORGAN. Is it inevitable that growth of the less-developed countries will come at the expense of growth in the industrialized countries? Is that an inevitable thing?

Mr. THUROW. That is not an inevitable thing, because it depends what the industrialized countries do. If we have a Third World workforce, the answer is yes, and if we have got two-thirds of Americans who are a Third World workforce, the answer is yes for them.

You see, it used to be if you were an American and relatively unskilled you got an American premium, because you would work with more raw materials, better capital, better technology, and so even if your skill level was not above that found in the rest of the world, you would get higher wages because of those first three things.

But in a world where you can buy raw materials, you borrow capital in the same places, New York, London, and Tokyo, and you can do reverse engineering, then there is only one thing in the long run that is going to determine the wages of an individual American worker, and that is his or her skill level.

The fact of the matter is, it is very misleading to talk about whether America is or is not competitive, because the answer is, as I tried to say, about one-third of Americans are very competitive, and two-thirds of Americans have Third World skills, and falling real wages.

It is something that economists and you may have remembered teaching called "factor price equalization." If you are not more skilled than the Korean you work for Korean wages no matter where you are in the world, and if you are not more skilled than a Mexican, you work for Mexican wages even if you happen to live in the United States.

The problem is that creates social and political dynamite if you have a Third World economy sitting inside a First World economy, and I think that issue partly is skills but it is partly having the strategy for getting the new high wage jobs like consumer electronics. Consumer electronics is the big American disaster, second biggest industry in the world with no American presence, much bigger than textiles.

Senator DORGAN. Well, people who are watching you on television are watching you on a device that we invented but we do not now produce.

In most cases, those people watching are watching on a set produced elsewhere despite the fact that we invented it, and when we talk about—you know, when we talk about the future and high technology and so on and so forth, everything that we invented it seems to me someone else grabs and produces because the manufacturing jobs from those inventions can be done less costly elsewhere.

Now, I think what you said earlier was that there is a kind of homogenization with respect to this kind of a trade agreement with Mexico in which we will see inevitably generally lower wages.

Mr. THUROW. Only for two-thirds of Americans.

Senator DORGAN. But that is a pretty good hunk of the American workforce.

Mr. THUROW. But remember our big trade deficit. We do not have a trade deficit with Mexico, and even when it was a deficit, it was not very big. Our big trade deficits are with places like Japan and Germany that have wages higher than we do, not lower.

You know, Airbus Industries is the real problem, or it is an example of the real problem. Here is a European strategy to take America's biggest export industry away from it, and it is working.

You know, they have got 25, 30 percent of the American market. That is a lot, millions of high wage jobs, a lot more important than anything that goes on in textiles between Mexico and the United States, and we sit here kind of having a temper tantrum telling the Europeans they should not do it, but the answer is, if you are winning, you are going to continue to do it, and what I would say is, where is the American strategy for taking consumer electronics away from the Japanese?

Senator DORGAN. Well, we have no strategy. We have proudly boasted now for the last decade, in which we generally lost, in my judgment, that we have no plan. That ought not be a source of pride. Now, that is going to change, I hope.

Mr. THUROW. You see, if you take shoes, it is an interesting problem. There are basically three shoe industries in the world. There is a low-wage, low-technology leather shoe industry which is mostly in Brazil, there is a low-wage, medium-technology industry for making running shoes, athletic shoes, which is mostly in the Far East, and then, even by American terms, there is a very high-wage, high-fashion, expensive shoe industry in Italy that pays wages way above the average American wage and they sell them in the United States.

So, the question was why our American shoe manufacturers just folded up their tent and went away as opposed to competing in this part of the market that could in fact pay wages above American levels and successfully do it, as the Italians demonstrate every day.

You see, if you think of textiles and garments, the interesting thing is the world's biggest exporter is China—no great mystery—the second biggest exporter is Italy, and the third biggest exporter is Germany. The United States is a net importer, and so if you take the whole industry, textiles plus garments, it is not competitive on world markets, because we are a net importer.

But it is interesting that you take Germany, which has wages way above that of the United States, which is a net exporter. They import a lot. They import men's underwear—you would be silly to make that—but they are a net exporter to the world, and the question you have to ask the garment and textile industries, if the Germans can do it paying $25 an hour, why can you not do it paying $10, and I think that is a good question to ask to the garment and textile industries.

Senator DORGAN. Well, I always appreciate hearing you, and I regret my time is up. I have not had a chance to ask Mr. Donahue and Mr. Elisha a question. I must observe that in this debate it seems to me often we tend to talk past each other in slogans, and Mr. Donahue, your testimony would be characterized and dismissed by some as just pure protectionism.

"Protection" has become a sort of a bad word in this town, at least among some of the institutional thinkers, and Mr. Elisha, and incidentally Mr. Donahue, you have testified before the Ways and Means Committee many times, and I have heard your testimony many times. I substantially agree with your testimony on NAFTA.

Mr. Thurow says the potential exists for a substantial proportion of the American workforce to experience lower wages as a result of that. That is—only an economist could use the word, "only," preceding "two-thirds of the workforce." No politician could or would do that.

Mr. Elisha, I must say that I am as confused as Senator Hollings is about such an avid support of NAFTA, and then suggesting that GATT needs to be modified or you do not support it.

I see parallels in NAFTA and GATT with respect to the direction that was taken by U.S. negotiators in both. The same negotiators were making the same mistakes in both areas, and I am as confused, I guess, as Senator Hollings is for you to say, gee, this thing with Mexico is terrific, but GATT is all wet. That does not make sense to me, either.

Mr. ELISHA. Well, you spend enough of your life working on complicated things to know that there can be substantial differences between agreements even though under a particular heading they are supposed to be in the same category.

My criticism of the Uruguay Round is it really undercuts significantly the North American Free Trade Agreement, and for our industry the benefit flows to Pakistan and India and China and erodes any of the advantage in this country I think in a lot of products, and incidentally I think there are a lot of people who oppose the Uruguay Round who would support NAFTA because the Uruguay language gives too much benefit to other trading blocs.

You know, the world is not globalizing. The world is creating large trading blocs, and so we tend to oversimplify and think of this as one big world where everything is going to move free. That is not going to happen, and I think it is a little risky for me to get on subjects like this with Dr. Thurow at the table, but it will globalize on some products and regionalize on many others.

One of the reasons, one of the answers to your question, Senator, is the Japanese have kept the high value-added processes in their country and they have continued to training their workforce, and we have all heard about those things, and exported the low value-added jobs to other countries—Thailand has been given as an example—so that the ratio of "foreign" investment in the Japanese-made product is significantly higher than it is in an American-made product.

Well, first of all we have a huge market, so we do not go looking for other places to try and build these things, but also because the Japanese I think have very wisely found ways to assemble products, the low value-added jobs with low-cost labor, and preserve the high value-added jobs for their own country.

So, my view is not that this is a U.S. trade agreement alone. It is a hemispheric trade agreement. It gives all the countries in this hemisphere access to a wide variety of technologies, and one of those technologies is low-cost labor, and that is what the Japanese have done, and they have done it in electronics.

Mr. THUROW. Can I make an observation here on this point? You see, if you were thinking strategically about trade blocs, you would never ask Mexico to be the first member to join. You would go off and pick off the Koreas, the Taiwans, or even the Thailands, because the Thais bring you a wage rate that is roughly Mexican, but a much better educated workforce than Mexico has.

So, if you are saying, hey, we are doing this for strategic reasons, you never would start with Mexico, you would start with some other country in the world and ask them to join an American trading bloc, because in a modern world having them next to you makes no difference. You do not have to have them on your borders, you can have a member of your trading bloc on the other side of the world, and from the point of view of strategy, a Taiwan or a Korea would bring a lot more cards to the table than a Mexico.

Mr. ELISHA. But Taiwan and Korea are not next door, and first we should help our neighbors.

Mr. DONAHUE. Mr. Chairman, that is not strategy, that is charity.

Just so the record does not close with me being labeled by my friend Senator Dorgan as a protectionist here, let me just note that I believe—yes, I would even accept the label. I think the American trade union movement is an institution designed to protect its members. I think nations were designed to protect the people who live within them. I believe that very deeply. This Nation was not formed to protect the interests of the Canadians or the Mexicans, or anyone else. It was formed to protect our own.

Dr. Thurow talks about a global economy and a role for governments, and I believe that very deeply. I believe in the global economy. We are clearly moving in that direction. I believe there is a role for Government. I believe that what this committee is dealing with is a leftover of an administration which did not believe there was a role for Government.

Free trade leaves out governments entirely. Free trade says no, leave it to Mr. Elisha and others to run the world. Free trade says there is no role for government. NAFTA is here before you as a leftover of an administration that did not believe there was a role for Government and trade and wanted to get out of it.

Mr. Elisha likes the agreement for good reason. The textile is protected from yarn through to the finished product, and I commend that piece of the agreement. I think that is a desirable protection of U.S. textile employees, but what about apparel employees?

When we tried to pass a bill in this Congress some years ago that called for a certain percentage of domestic content, domestic content was bad, that is protectionist, but rules of origin for three countries are apparently good. I hope some day someone will explain the difference to me, because the rule of origin is a domestic content rule multiplied by three, and that is all it is, but suddenly it has become good.

I think there is a massive debate to be had as to whether we ought to have trading blocs or should not have trading blocs, whether GATT or trading blocs should be the windup.

You have heard this morning so much about, well, if not the NAFTA, then what? Well, that is starting the argument from the wrong end. I can think of a lot of things that would be better than a NAFTA, and I think what we ought to do is tear it up, begin a renegotiation looking to a common market, looking to common external tariffs, looking to common currencies, looking to controls which would stabilize the growth in three countries and bring along a real harmonization up and not a harmonization down that NAFTA is going to produce.

I think that Mexico did not negotiate the NAFTA to become our export platform. Mexico negotiated the NAFTA because they want absolute access to the U.S. market, so they are not ready to be our export market, they want us to be their market for the sale and consumption of goods, and by and large the investment community in the United States shares that view because they can produce cheaper in Mexico and ship back here.

The CHAIRMAN. Well, in just a second we will let you go here. When you talk—and I was just jumping up and down here, because you are talking about the Government. Heavens above, every one of us in the game, and I have been in it now 40 years, goes specifically to BMW. We just attracted them. How can you talk about free trade and then bring in BMW with $130 billion package?

Mr. Elisha and I are going to pay the taxes. The Government is putting on us to develop the port facilities. We had the port authority go up there and buy the site. We have got the training program.

I am very proud because von Kuhnheim comes and says Senator, we came on account of your excellent skills, and I know I got those illiterates off the farms and what-have-you, but they come in, and they get the training, and they are just as productive, or the most productive.

So, we pay for the training program, we pay for the airport expansion and everything else of that kind, we build an airport for them, we put all the Government—that is why I do not bash Japan. In fact, if I were the emperor, I would run it the same way. It is working. Their operation is to get market share.

I have been bashing Washington because, Dr. Thurow, when we lost electronics, when Zenith appeared at one of the last cases the Justice Department appeared against the American manufacturer, and we have just gone all over.

So, you have got the demeaning sight of a President of the United States running to Tokyo with some automobile folks, please buy some parts. Man, come on. That is the most embarrassing thing I have ever seen.

All you have got to do is get into the market, make it competitive, make it to the economic interest of the Japanese. They will buy all of your auto parts. In fact, we are selling them right now from Greenville, SC—automobile carpets all the way to Tokyo.

So, we believe in doing business, and we do not bash, and we are interested in other industries as well. I never forget competing with Governor Hodges of North Carolina, and I went out, I got Eastman Kodak, and I had been watching Jim Robinson have a lot of trouble up there and saying they are going to have to sell off a bunch of things.

Then I pick up yesterday morning's paper, Mr. Elisha. Eastman Kodak says its Eastman Chemical Co. unit will build a plant in Mexico to make polyethylene terephthalic bottled polymer. Well, look out 2 years from now, Carolina Eastman. Watch it. That worries me.

So, it is not just textiles, it is everything. They are all moving down. They are all moving down, and you see, when you talk about how you are competitive—I would put in the record the story about little Vincent Guerrero, the 12-year-old, the best student in the class—from the Wall Street Journal. The teacher goes in and says, "come on back into the class, you can go on to college," and he says, "how much do you make?" The teacher says "120,000 pesos." He says, "I am making 180,000."

So, the 12-year-olds—and there is no question. We lifted this out of the computer from the National Institute of Statistics, Geography and Infomatics from Mexico, Your Partner for Growth, yesterday and it says, "it includes population of 12 years and over that did not have a job the week before the survey and have been looking for it."

That is where you are going and here I find out I agree with Dr. Freeman. One possibility is for us to become a class society like those in Latin America which have unequal distributions of wealth and chronically unstable governments, says Richard D. Freeman, an economist at Harvard. That is the direction we are headed.

That is what is really worrying me and that is why we got you distinguished gentlemen up this morning. Because if I could do it, I would, in a day or a week or a year, but it is going to take a good 25 years, where you have got 4 percent of our income, 10 percent of our wages. The 12-year-olds and under, no Magna Carta, which I am sure Mr. Elisha favors for GATT, but no Magna Carta for child labor and all these other things for NAFTA.

It will take a steady—the economists tell me—a good 9-percent growth per year for 25 years to begin to build under that circumstance.

So, what is going to happen in the next 10 to 15 years is the middle class is going down even further as we work downward, rather than upward, with respect to our standard of living.

Again, I supported the one with Canada. We have got the same standard. But not with Mexico.

The record will stay open for questions by the committee. And we are very, very grateful to each of you this morning. Thank you very, very much.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

APPENDIX

Prepared Statement of Senator Pressler

Mr. Chairman, I want to thank you for holding this hearing on the NAFTA, and for bringing the United States Trade Representative before the Committee to testify.

NAFTA is receiving considerable attention by my constituents in South Dakota. As you may know, South Dakota is the most rural state in the Nation. Agriculture is my state's number one industry, contributing nearly $14 billion dollars to the its economy.

Growth in the agricultural sector is essential to South Dakota's future. Exports are crucial to that growth. In 1991, South Dakota's agricultural exports totalled $711 million. Many of these exports are going to our neighbors to the north and south.

Canada is South Dakota's largest export market and Mexico is it's seventh largest. These exports support 6,800 jobs in South Dakota.

The views of South Dakotans towards NAFTA are mixed. Many South Dakotans are concerned about NAFTA's potential effect on wages and the loss or relocation of jobs. NAFTA is also receiving mixed reviews in the agricultural community and among my state's farm and ranch organizations.

To better understand my state's position on NAFTA, last year I polled constituents at the South Dakota State Fair. At that time, showed 75 percent of those South Dakotans who took part supported NAFTA. I plan on conducting the same poll this year to see if these views have changed over a year's time.

How would NAFTA impact South Dakotans?

Will more jobs be created in the state, or could the state experience a loss of jobs? Will the state's agricultural economy be enhanced through greater demand and expanded exports, or will agriculture in the state be diminished as a result of increased agricultural imports and excessive supplies?

These are not easy questions? However, they need to be carefully reviewed before the Senate makes a final decision on the NAFTA. will carefully analyze the proposed agreement over the next several months and listen to the concerns of all South Dakotans. The NAFTA must protect American jobs from unfair competition and benefit all South Dakotans.

Prepared Statement of Saul N. Ramirez, Jr., Mayor, Laredo, TX and President, PRO-NAFTA

My name is Saul N. Ramirez, Jr. I am the Mayor of Laredo, Texas, a city of 140,000 on the U.S.-Mexico Border and the fastest growing city in Texas. I am also the President and a founder of PRO-NAFTA. PRO-NAFTA is an organization led by U.S. local elected officials which has as its goal helping other officials realize the positive economic opportunity that the proposed North American Free Trade Agreement provides—not just for the border regions but for the entire country. PRO-NAFTA is also dedicated to obtaining investment in public infrastructure to support the increased economic activity that NAFTA will generate. We believe that a key part of realizing this opportunity is adequate investment in transportation, communications and environmental infrastructure by both the United States and Mexico. This necessity was acknowledged by the House Committee on Appropriations, which directed the Department of Transportation to give special consideration to the infrastructure and transportation needs of the border area in allocating its discretionary funds for fiscal year FY 1993.

The City of Laredo is the largest inland port in the United States, and its trade and commerce statistics are indicative of the booming commercial activity along the entire U.S.-Mexico border. If you look at the attached map showing Laredo's strategic location, you can see how we serve as the gateway for international trade with the south for all of the eastern half and middle of this country. Sixty percent of the truck traffic going south from the United States into Mexico goes through Laredo. After Mexico signed the General Agreement on Tariffs and Trade (GATT) in 1986, truck traffic going south increased dramatically. In 1986, 236,000 trucks went into Mexico through the Port of Laredo. The figure for 1992 was 652,731. We project 772,000 trucks will go through Laredo southbound into Mexico in 1993. These figures represent a 227 percent increase in traffic southbound or a 28.3 percent average annual growth rate between 1986 and 1992.

Similar increases are occurring northbound. According to U.S. Customs Service statistics, 178,151 cargo-carrying trucks were inspected crossing from Mexico into the U.S. through Laredo in 1991 and 205,771 were inspected in 1992. This is an average increase of over 75 trucks a day. An additional 225,864 northbound empty tractor trailer trucks were recorded by Customs as crossing into the United States through Laredo, for a total of 438,651 truck crossings into Laredo from Mexico in 1992.

These are the numbers before implementation of the North American Free Trade Agreement. The increases will be even sharper once that happens. For example, beginning in the first year of the agreement trucks from each country will be able to travel all of the way into the Mexican and U.S. border states instead of being confined to a narrow border area. This will greatly reduce the number of empty crossings and increase business for U.S. truckers.

Laredo is also the major U.S. inland port for rail freight movement into Mexico. Railroad car crossings southbound into Mexico through Laredo increased from 28,000 in 1986 to 108,000 in 1992—an almost 300 percent increase in the six year period. Similar increases are seen northbound. 89,921 rail cars arrived from Mexico through Laredo in 1991. 101,976 arrived in 1992, and 43,628 in the first two months of 1993.

At Laredo International Airport, 5,316 aircraft arrived from Mexico in 1992. In the first two months of 1993, 1,860 aircraft arrived. At that rate the 1993 figures will show a doubling of aircraft arrivals in one year. Passenger enplanements have increased from 25,093 in 1987 to 99,020 in 1992, and deplanements increased from 22,719 in 1987 to 84,566 in 1992. Cargo activity totalled 84 million pounds of gross landed weight in 1992 and is projected to double in 1993, based on current scheduled service. During 1989 only 84 airports nationwide handled in excess of 100 million pounds of gross landed weight. Laredo is poised to join this group during 1993.

In spite of what one of my fellow Texans has said, the sound we hear in Laredo is not the sound of jobs going south but the sound of U.S. owned trucks driven by U.S. drivers carrying U.S. materials, parts and products, made in U.S. cities and counties by U.S. workers in U.S. owned businesses. The sound we hear coming north is the cash register ringing in the U.S. Department of the Treasury and in businesses all across the country that are making profits and creating jobs at home from increased trade with Mexico.

The Port of Laredo generated $191 million in duties collected and deposited in the U.S. Treasury in 1992. This is up from $151 million in 1991—an increase of 26 percent in one year alone.

I must emphasize that the smooth movement of goods through Laredo not only benefits border areas and Texas in particular, but the entire country. A survey by the Laredo Development Foundation in 1989 showed that 19 percent of the trucks going southbound through Laredo carried cargo that originated in the Southeast region of the United States, 38 percent originated in the Northeast, 30 percent in the Central region, and only 7 percent in the Southwest and 5 percent in the West. In states all over the country the percentage of exports to Mexico has risen immensely from 1987 to 1991. According to figures compiled by the U.S. Department of Commerce, these include Georgia, up 249 percent; Massachusetts, up 130 percent; Alabama, up 89 percent; Minnesota, up 141 percent; Iowa, up 64 percent; Virginia, up 256 percent; and Oklahoma, up 82 percent, to name a few.

Businesses located in Maryland did $51 million worth of export trade to Mexico in 1991, according to figures compiled by the International Trade Administration of the U.S. Department of Commerce. Maryland's exports to Mexico grew 198 percent from 1987 to 1991, 109 percentage points faster than export growth to the rest of the world. I have attached to my testimony more detailed information on these increases from the ITA's most recent report.

We in Laredo will be one link, but all the pieces of the chain will come from throughout the country. As an example, the Wal-Mart located in Laredo, Texas, which serves a primarily Mexican market, has the highest sales volume of any Wal-Mart store in the United States. Wal-Mart Stores' corporate headquarters is in Bentonville, Arkansas. We derive benefit from sales taxes and employment, but the toys, appliances, clothes and other accessories sold there are made in many cities throughout the country. Wal-Mart's experience in Laredo is duplicated by other

American retail giants such as Sears (headquartered in Chicago), Montgomery Ward, and J.C. Penny (Dallas). This kind of activity will be multiplied many fold if the North American Free Trade Agreement is approved.

This concludes my testimony. Again, I seek your support for the North American Free Trade Agreement and thank you for the opportunity to testify before you today. We look forward to working with you.

PREPARED STATEMENT OF THE VIRGIN ISLANDS RUM INDUSTRIES, LTD.; BRUGAL & CO., INC.; THE GOVERNMENT OF THE U.S. VIRGIN ISLANDS; WEST INDIES RUM AND SPIRITS PRODUCERS ASSOCIATION; AND CARIBBEAN/LATIN AMERICAN ACTION

Virgin Islands Rum Industries Ltd. ("VIRIL"), Brugal & Co., Inc., the Government of the U.S. Virgin Islands, the West Indies Rum and Spirits Producers Association ("WIRSPA") and Caribbean/Latin American Action ("C/LAA") appreciate the opportunity to provide the Committee on Commerce, Science and Transportation with their views on the impact of the North American Free Trade Agreement ("NAFTA") on domestic producers of rum and rum producers throughout the Caribbean region. For the reasons set forth below, we believe that Congress must insist that any supplemental agreement to the NAFTA on import surges include specific provisions to prevent damaging surges in rum imports from Mexico.

The supplemental import surge provisions that we propose would not require the reopening of the NAFTA itself. Without these supplemental provisions for rum, however, the NAFTA could do great—possibly even irreparable—harm to producers, governments and economies throughout the Caribbean region, including those in the U.S. Virgin Islands and Puerto Rico.

Because of Mexico's very large comparative cost advantages in the production of rum, and its existing resources and infrastructure, it is highly likely that imports of rum from Mexico will surge into the United States within a few years after the implementation of the NAFTA. Economic studies demonstrate that rum imports from Mexico would overwhelm portions of the domestic rum industry before it could make necessary adjustments. Surges in U.S. imports from Mexico would also do severe damage to the economies of those Caribbean countries that currently benefit greatly from the duty-free treatment of rum under the Caribbean Basin Initiative ("CBI"). Moreover, without appropriate, automatic provisions to protect against import surges, substantial increases in imports of rum from Mexico would do great harm to both the economies and territorial budgets of the U.S. Virgin Islands and Puerto Rico.

The proposed NAFTA would phase out, over a ten-year period, the current $0.37 per proof liter (approximately $1.40 per proof gallon) U.S. tariff. This ten-year phase-out is the longest such period under the NAFTA for alcoholic beverages. In adopting this ten-year phase-out for rum, the NAFTA negotiators recognized a reality that has repeatedly been stressed in testimony before Congress and the U.S. International Trade Commission ("ITC")—that rum is a highly import-sensitive product, deserving of special consideration. The NAFTA negotiators failed to recognize, however, the strong likelihood that imports of Mexican rum will flood the U.S. market well in advance of the end of the ten-year duty phase-out, causing substantial injury to U.S.-flag rum producers and potentially devastating effects on producers and countries in the Caribbean Basin region.

THE THREAT OF IMPORT SURGES FROM MEXICO

Currently, Mexico exports no rum to the United States. The current specific duty on rum—which is roughly equal to the F.O.B. St. Croix price of low-valued Virgin Islands bulk rum and similarly low-valued bulk rum products from CBI countries—creates a prohibitive barrier to imports of low-valued rum from Mexico. According to economic analyses provided to the ITC, the elimination of duties on Mexican rum is expected to result in substantially increased imports of low-priced rum from Mexico. These imports will compete directly with low-valued rum produced in the U.S. territories and certain CBI countries—rum which is generally sold in bulk to U.S. rectifiers and bottlers almost exclusively on the basis of price.

Under current conditions, Mexican rum producers have tremendous cost advantages over other producers of low-value rum in the Caribbean region. Mexican producers, unlike their counterparts in the U.S. island territories and elsewhere in the Caribbean, enjoy plentiful supplies of sugar cane molasses, low energy prices, and low transportation costs as a result of geographic proximity to the U.S. market. In addition, Mexican producers can tap into a large pool of cheap, unskilled labor and are not subject to a well-enforced system of labor and safety laws. According to an economic analysis commissioned by the Virgin Islands Government and VIRIL, the largest Virgin Islands producer, the elimination of the current duty would provide current and potential Mexican producers with a cost advantage of at least 50 cents per gallon over low-value Virgin Islands rum. It is anticipated that Mexican producers would enjoy a similar cost advantage over other Caribbean producers of low-valued rum.

Because of these tremendous cost advantages, it is highly unlikely that the regional rum industry in the Caribbean would be able to compete under the NAFTA with Mexico in the low-value segment of the U.S. market. A recent economic analysis demonstrates that, under a ten-year phase-out of the current duty, Mexican rum producers will likely be able to match the price of Virgin Islands rum in the U.S. market within as few as five to six years. Similarly, Mexican producers will be able to beat the price of low-valued rum produced elsewhere in the Caribbean well before the end of the ten-year phase-out. Once Mexican producers have matched the price of regionally-produced low-value rum, economic analyses show that they will then enjoy an increasingly insurmountable cost advantage in subsequent years. Because low-valued rum is sold almost exclusively on the basis of price, imports of such rum from Mexico can be expected to surge into the United States well before the end of the NAFTA phase-out period.

To understand why the NAFTA must be supplemented by a rum-specific mechanism to prevent such import surges and provide for orderly increases in Mexican imports, it is necessary to understand the tremendous importance of the rum trade to the producers, economies and governments of the U.S. Virgin Islands, Puerto Rico and certain CBI nations.

THE CONCERNS OF DOMESTIC AND CARIBBEAN RUM PRODUCERS

As noted previously, the current, substantial duty on rum has been critical to the continued viability of producers of low-valued rum in the U.S. insular territories and throughout the Caribbean. Because low-valued rum generally lacks name brand identification and a well-developed distribution network, it must compete almost exclusively on the basis of price. The low end of the rum market is highly price-sensitive—pennies can literally make or break a sale. The enormous cost advantages of Mexican producers would permit them to beat the price of regionally produced low-valued rum well before completion of the planned phase-out of duties under the NAFTA. These substantially lower costs, and the resulting lower prices, will likely lead to surges of imports of low-valued Mexican rum into the United States during and after the NAFTA transition period.

Producers of low-valued rum throughout the Caribbean must be given adequate time to adjust to the duty phase-out by developing higher priced "name brand" products that are not so price-sensitive or -elastic. To induce wholesalers and retailers to carry new products at premium prices will require substantial and sustained advertising expenditures, as well as the development of expensive promotional and distribution networks. Capital expenditures for facilities and equipment for aging and other processes will also be required. Thus, market stability for an extended period of time is essential to allow these Caribbean producers to generate the capital required to overcome these substantial "name brand" entry barriers and to adapt to the post-NAFTA environment. A supplemental surge mechanism is required to provide these regionally important industries the chance to make these difficult changes.

THE IMPORTANCE OF RUM TO THE U.S. VIRGIN ISLANDS AND PUERTO RICO

The governments of the U.S. Virgin Islands and Puerto Rico are uniquely bound to and dependent upon the continuing health and vigor of their rum industries. Under applicable law, the U.S. Congress has provided that federal excise taxes collected on rum manufactured in the these territories and shipped to the United States shall be returned to the treasury of the appropriate territory. Congress intended that these tax cover-over provisions guarantee a permanent source of funds for the governments of the Virgin Islands and Puerto Rico and thus contribute to the financial self-sufficiency of these territories.

Since 1954, the rum industry, through the cover-over provisions, has helped to create and sustain two American success stories in the Caribbean. Federal excise taxes on Virgin Islands rum currently fund nearly 10 percent of the Virgin Islands' total budget. Puerto Rico currently receives about $250 million in annual revenues through the rum cover-over provisions, accounting for some 5 percent of its total budget. These cover-over funds have financed a variety of projects, including the construction of schools, health care facilities, airports and much of the capital infrastructure of the two territories. In addition, the number of direct jobs generated by these capital expenditures runs into the thousands—far outpacing the number of jobs in the rum industry, which is itself one of the largest manufacturing industries in the territories. For these and other reasons, the rum industry remains one of the most important sources of revenue for the governments of the Virgin Islands and Puerto Rico.

Both the Congress and the Executive Branch have recognized the unique role that rum plays in the legal, economic and political relationship between the United States and its island territories in the Caribbean. Indeed, because of this historic relationship, the United States has, on many occasions, taken affirmative action to protect the Virgin Islands and Puerto Rico rum producers from competitive harm. For example, the United States has rejected numerous petitions for preferential treatment of rum under the GSP program. In addition, Congress specifically excluded rum from the list of eligible articles under the Andean Trade Preferences Act.

Because of the linkage between rum production and excise tax revenues, surges in imports from Mexico will threaten the fiscal stability of the territorial governments and the overall economies of the Virgin Islands and Puerto Rico. To assure that Mexican rum does not overwhelm territorial producers of low-valued rum and cause great harm to their respective governments and economies, the NAFTA must be supplemented to provide for a specific import surge mechanism that will assure a more orderly and predictable growth in Mexican rum imports to the United States.

THE IMPORTANCE OF RUM TO THE CBI NATIONS

Since 1984, the United States has enjoyed a special relationship under the CBI with the island nations of the Caribbean and the small countries of Central America. This special relationship has served important U.S. foreign policy interests while providing valuable trade preferences to the CBI nations. Recently, many members of Congress have expressed concern that the NAFTA will undermine the CBI. Indeed, without supplemental protections, the NAFTA will seriously damage this special relationship, eroding the real value of existing preferences under the CBI and threatening harm to some of the more fragile economies of the region.

Rum is a product of special importance for many CBI countries. In particular, rum has been produced in the Caribbean for centuries, providing important contributions to local economies as well as to the culture and folklore of the region. Under the special relationship established by the CBI, Caribbean rum producers have increased their market penetration of the United States by more than 50 percent, earning much needed foreign currency and creating new jobs in the region. Indeed, the ITC has identified rum as one of the limited number of products benefiting most from duty-free treatment under the CBI. A number of CBI countries, including Barbados, have only recently established a foothold under the CBI in the lucrative U.S. rum market. A very substantial percentage of CBI rum imports are in the low-valued segment of the market.

The current NAFTA text will have particularly deleterious effects on imports of rum from CBI countries. As explained previously, the tremendous cost and competitive advantages enjoyed by Mexico will likely enable Mexican producers to overwhelm Caribbean producers of low-valued rum well before completion of the duty phase-out called for by the NAFTA. Moreover, because the CBI countries are excluded from the NAFTA, CBI producers would be precluded from resorting to the bilateral safeguards provided for in Chapter 8 of the NAFTA.

The loss of a special region-specific benefit for rum will cause real hardship to a number of Caribbean economies and will undermine much of the foreign policy progress made over the last decade under the CBI. Thus, supplemental safeguards are required to assure that CBI producers can maintain at least a portion of a special benefit which Congress and previous administrations labored long and hard to create and preserve.[1] By assuring orderly and predictable increases in rum imports from Mexico, additional surge safeguard provisions would go far toward ensuring the compatibility of the NAFTA with existing policies and preferences under the CBI.

THE INADEQUACY OF EXISTING NAFTA SAFEGUARD PROVISIONS

The current draft NAFTA recognizes the potential for serious import-related injury, despite the phasing-in of tariff reductions, by providing for bilateral "emer-

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[1] For example, in the Andean Trade Preferences Act, Congress specifically excluded rum from the list of eligible articles under the Act. H. Rep. No. 102-337 at 15. In addition, previous administrations have denied petitions, including a 1990 petition by Colombia, for duty-free treatment of rum under the GSP program.

gency action" measures under Chapter 8. While these bilateral safeguard measures may prove useful to domestic producers in many sectors, these provisions do not alleviate the concerns regarding rum imports set forth above. It is not clear that harm limited to producers of low-valued bulk rum in the U.S. Virgin Islands and Puerto Rico could be remedied under the current text. Although these producers account for virtually all U.S. production of low-valued rum, they are only a portion of all domestic rum producers. Moreover, Chapter 8 may be implemented only in cases of import-related injury to a "domestic industry." As a result, harm to CBI producers could not be remedied under the duty "snap-back" provisions of Article 801.

A PROPOSED IMPORT SURGE MECHANISM FOR RUM

To address the threat of surges in Mexican rum imports under the NAFTA, the supplemental agreement on import surges should include rum-specific safeguards. Under these safeguards, the United States and Mexico should formally recognize the potential for disruptive surges in the rum sector. The governments should further agree that the United States may automatically impose a safeguard if rum shipments from Mexico in any year exceed a specified volume beginning with a "growth amount" for 1994 and increasing by the same growth amount each year thereafter for twenty years. Because of the high potential for import surges and the adverse effect of such surges on domestic and CBI producers, no petition or finding of injury would be required.

The proposed rum surge safeguard would provide that shipments in excess of the then-applicable schedule amount would be dutiable at the then-current MFN rate (rather than the lower NAFTA rate) and would cancel the schedule amount increase for the following year. The safeguard would then continue to apply if shipments exceeded the scheduled amount in subsequent years. The proposed safeguard could not be combined with bilateral or global safeguards under Chapter 8 of the NAFTA.

This proposal will help assure that orderly increases in imports of Mexican rum under the NAFTA do not unduly threaten domestic producers, the fiscal stability of the U.S. territories in the Caribbean or the important gains made by Caribbean producers under the CBI. The proposal does not change the duty phase-out under the NAFTA and thus does not "reopen" the agreement. Because it addresses the unique problems faced by producers and governments in the Caribbean Basin, it is more than a narrow request for protection of a domestic industry. Rather, it is a carefully drawn effort to provide breathing room for domestic producers while also avoiding devaluation of existing U.S. trade policy in the Caribbean in one of the few product sectors that has shown gains under the CBI.

We look forward to working with the Committee to assure that the important interests of producers and governments in the U.S. insular territories and throughout the Caribbean region can be reconciled with the equally important objectives of the NAFTA.

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